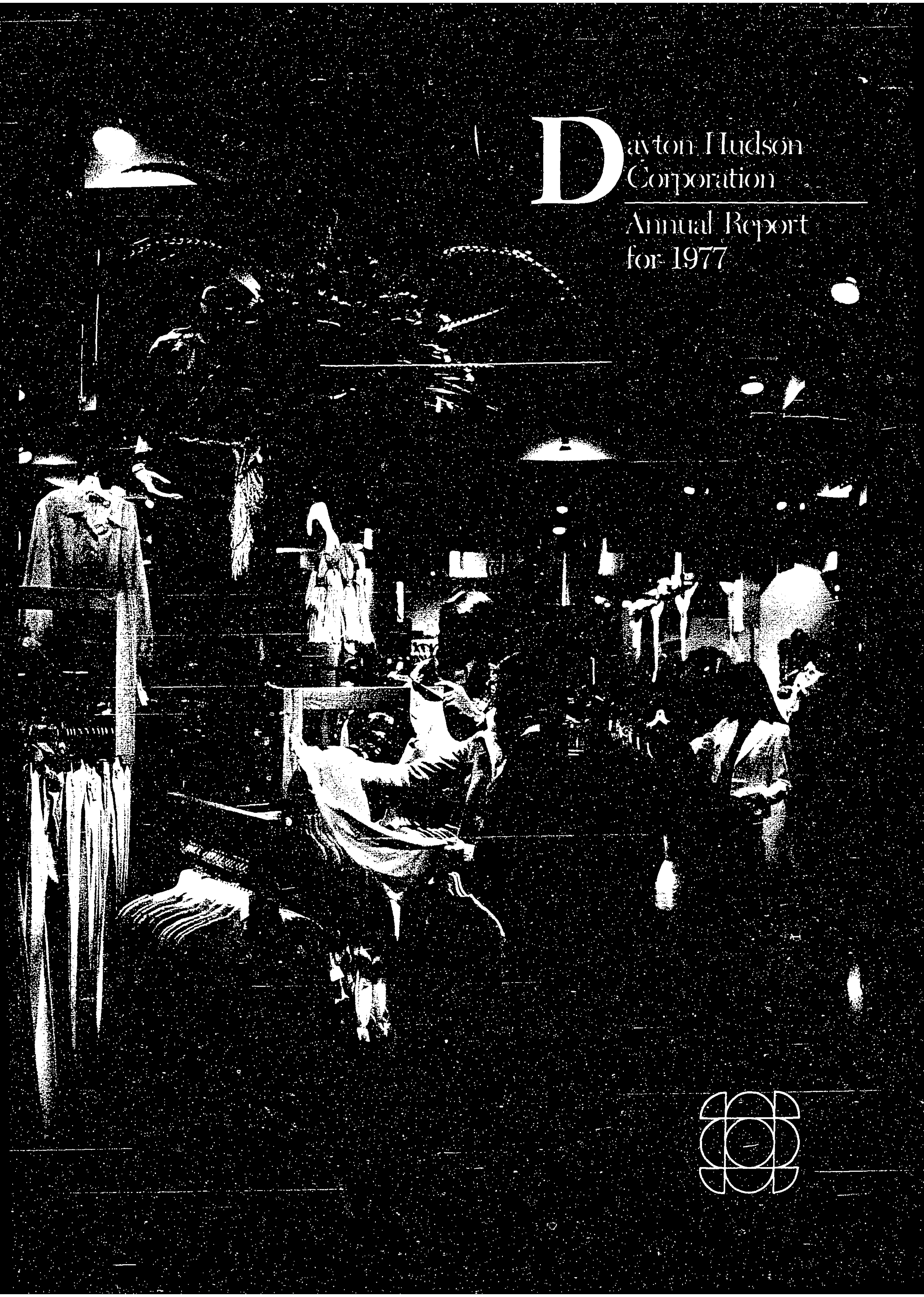
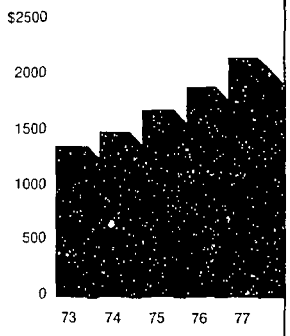
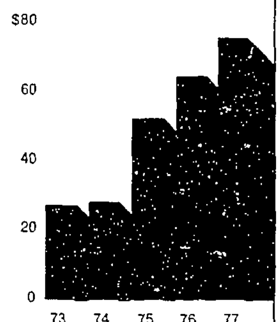

Dayton Hudson Corporation
Annual Report for 1977

Retail

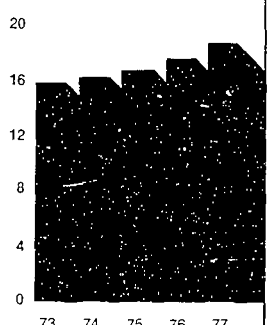
REVENUES



NET EARNINGS



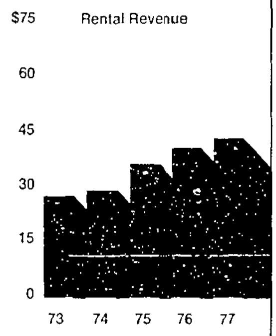
TOTAL SQUARE FEET



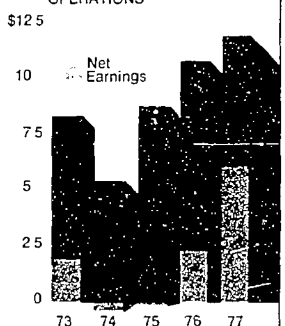
All figures in millions

Real Estate

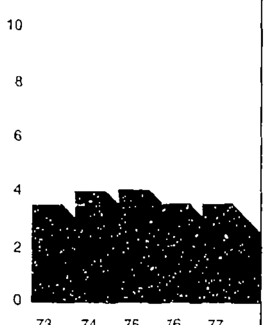
REVENUES



FUNDS PROVIDED BY OPERATIONS

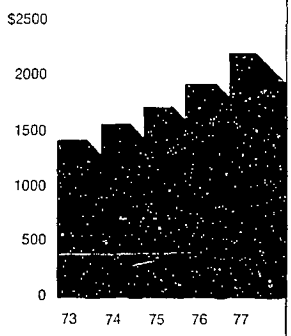


TENANT LEASABLE SQ FT.

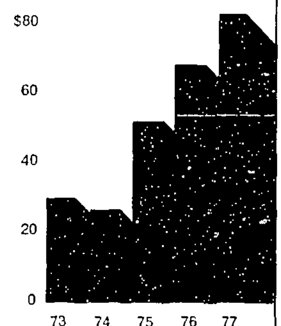


Consolidated

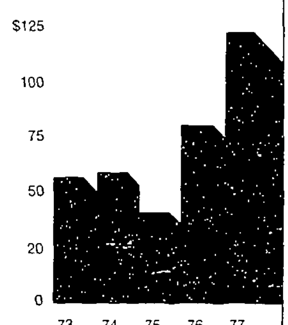
REVENUES



NET EARNINGS



CAPITAL EXPENDITURES



Contents

Dayton Hudson Corporation

Dayton Hudson Corporation operates a Retail line of business nationally through department stores, low-margin stores and specialty stores. It also operates a Real Estate line of business through Dayton Hudson Properties, which owns, develops and manages regional shopping centers and other commercial properties. For a description of the Corporation's operating companies and their locations, see Pages 34-36

Annual Meeting

The Annual Meeting of Shareholders is scheduled for 10 a m. Wednesday, May 24, 1978, in the IDS Conference Theatre, on the concourse level of the IDS Center, 80 South Eighth Street, Minneapolis, Minnesota.

Corporate Offices

777 Nicollet Mall
Minneapolis, Minnesota 55402
Telephone (612) 370-6948

COVER: *Contemporary Collections at Hudson's new store in Twelve Oaks Mall, Novi, Michigan*

Highlights

Retail	1977 52 Weeks Ended January 28, 1978	1976 52 Weeks Ended January 29, 1977	Percent Increase
Revenues	$ 2,125.7	$ 1,857.8	14%
Net Earnings	$ 74.7	$ 63.2	18%
Net Earnings Per Share	$ 4.66	$ 3.96	18%
Number of Stores	*474*	*413*	
Retail Square Feet (000)	*18,471*	*17,057*	

Real Estate

Net Earnings	$ 6.2	$ 2.5	148%
Net Earnings Per Share	$ .39	$ .15	160%
Funds Provided by Operations	$ 12.0	$ 10.8	11%
Tenant Leasable Square Feet (000)	*3,687*	*3,718*	

Consolidated

Revenues	$ 2,169.3	$ 1,898.5	14%
Net Earnings	$ 80.9	$ 65.7	23%
Net Earnings Per Share	$ 5.05	$ 4.11	23%
Cash Dividends Per Share	$ 1.25	$ .96	30%
Number of Shareholders	*10,474*	*10,814*	

All dollars in millions,
except per-share amounts.

To Our Shareholders:

For Dayton Hudson, 1977 was a year of accelerated growth, key strategic decisions and record results.

- Annual revenues passed the $2-billion milestone, increasing 14% to $2,169,276,000.

- Earnings growth outpaced revenue growth for the third consecutive year. Earnings per share increased 23% to $5.05 from $4.11 in 1976.

- The quarterly dividend was increased to 35 cents per common share in the fourth quarter. It was the fifth increase in the last 10 quarters and brought the total dividend for 1977 to $1.25 per share, an increase of 30% from the 96 cents paid in 1976.

- The Corporation reached an agreement to sell nine regional shopping centers to The Equitable Life Assurance Society of the United States. The proposed transaction signals a strategic shift away from the Corporation's heavy investment in real estate development. We expect that completion of the transaction will provide more than $100 million in cash for reinvestment in our Retail expansion program.

- We announced a major step-up in our expansion plans over the next five years. Total planned investment: $800 million. More than half is to be used to fuel Target's growth.

- We reached an agreement to merge with Mervyn's, a rapidly growing California-based softlines retailer. Our research has shown its operations to be highly compatible with Dayton Hudson – both financially and philosophically. Mervyn's has reported sales of $360.6 million and net earnings of $17.8 million for the past year.

Fourth Quarter

The Christmas season was our best ever, guaranteeing a record fourth quarter. Despite effects of the unusually severe winter that followed in January, revenues for the quarter were up 16% from a year earlier. Earnings for the quarter were $2.68, up 20% from the record $2.23 in 1976.

Retail Results

Retail revenue and earnings growth continued to be well balanced among our department, low-margin and specialty store groups. The department store group had the largest dollar increase in operating profit for the full year. Specialty stores had the largest percentage increase. Retail revenues totaled $2,125,669,000 in 1977, up 14% from a year earlier. Retail earnings increased to $4.66 per share, compared with $3.96. Although specialty stores increased their share of profit production, our primary sources of earnings continued to be our three largest companies – Hudson's and Dayton's department stores and Target low-margin stores. In 1977, these three produced more than three-fourths of our total Retail operating profit (earnings before corporate expense, interest and income taxes).

- Hudson's led the Corporation both in profit improvement and in total profit. Its operating profit increased 19% on a 12% increase in revenues.

- Target led all of our companies in total revenue growth and in total revenues. Its operating profit increased 13%, revenues 19%.

- Dayton's continued to rank among the Corporation's leaders in earnings as a percentage of revenues, although its operating profit declined slightly in 1977 after a 21% increase in 1976.

B. Dalton, Bookseller, had the sharpest percentage increase in revenues – 29% – and produced a 43% increase in operating profit while expanding from 250 to 298 stores.

Real Estate Results

Real Estate earnings were 39 cents per share, compared with 15 cents in 1976. Operating income from properties was up 12%. Funds provided by operations (cash flow before debt service) increased 11% to $11,970,000.

Financial Position

We began 1977 in strong financial condition, and grew stronger. Balance-sheet debt improved to 32% of total capitalization from 33% at the end of 1976 and 38% at the end of 1975. If all lease obligations are included, total debt was 43% of total capitalization at the end of 1977, compared with 44% a year earlier and 48% two years ago.

Capital Investment and Expansion

We stepped up the pace of our Retail expansion in 1977. Including capital expenditures and new lease obligations, our investment totaled $109 million, compared with $80 million in 1976. Additions included eight low-margin stores, two department stores and 51 specialty stores – about 1.4 million square feet of new retail space.

For 1978, we plan Retail capital investment of about $140 million. Scheduled expansion includes five department stores, 10 low-margin stores and more than 60 specialty stores. Total additional space: 1.8 million square feet.

Management and Board Changes

For the first time in nine years, the signature of K. N. Dayton is absent from this report to shareholders. Mr. Dayton has been a dominant force in guiding the Corporation to its national standing and current performance levels. He also guided the formation of our present management team and our professional management system — first as President, then as Chairman, a position which he held until I was named to succeed him December 1. Mr. Dayton remains a key member of Dayton Hudson's top management team as Chairman of the Executive Committee. Stephen L. Pistner succeeded me as President, and Richard L. Schall was named Vice Chairman of the Board.

On September 1, Bruce B. Dayton completed a management career with Dayton Hudson that spanned our growth from a single department store to a diversified national retailer. He served as President, then Chairman of the Board and finally Chairman of the Executive Committee during our first decade as a publicly held company. Throughout that period, he was at the center of our aggressive program of internal and external expansion. Bruce Dayton's vision of what we could become helped launch our growth; his standards of excellence shaped it. He is continuing his contributions to the Corporation as a financial consultant and a director, serving as Chairman of the Finance Committee.

The Board of Directors added another outstanding member in December with the election of Bruce K. MacLaury, President and Chief Executive Officer of The Brookings Institution. Mr. MacLaury's election increases the Board's size to 13 members. He is the eighth non-management director.

The Future

The months following our record Christmas season have been marked by an increasingly promotional retail environment and the effects of unusually disruptive weather. The combination has held Dayton Hudson's sales increases somewhat below expectations. But on the whole the strength of consumer spending remains impressive. We view intensified retail competition as a plus for our customers, a test for our value-oriented merchandising emphasis and an opportunity for us as we serve an increasingly sophisticated and discriminating customer. We believe that those companies best equipped to offer consistent value and a wanted difference to their customers are best equipped to compete successfully over the long term.

We have observed many times that retailing is a highly people-oriented business. Automation and computerization haven't changed that. If anything, people are becoming more central to our business. Customers. Employees. Shareholders. The communities in which we do business. They are the reason Dayton Hudson exists. They are the reason it has prospered. They are the reason we have been accelerating our rate of growth and raising our performance goals.

It took the Corporation 69 years to reach the $1-billion mark in annual revenues. It has taken just six more years to reach $2 billion. Our objective now is to reach $4 billion by 1982, and we have developed plans for growth that we believe make this a reasonable goal for our present operating companies.

At the heart of these plans are people — the people who made 1977 our best year yet, and who are the primary source of our optimism about our future.

William A. Andres

William A Andres
Chairman of the Board
and Chief Executive Officer

—What's in it for the customers?
—Can we do a better job of serving our customers' needs than the competition?

There are plenty of "me too" stores. We don't want to add to *that* total. We seek to be different—not simply for the sake of being different, but to provide a *wanted* difference. We seek to serve our customers well by serving them better than the competition.

We have challenged our operating companies to be the customer's purchasing agent. They stand between the customer and the manufacturer, working to make sure the customer's expectations are met and effectively communicated to the manufacturer. We are convinced that over time the results of our operating companies will provide an index of how well they have met this challenge.

Just as we have assembled a corporation with a balance of retail strategies, we have sought to develop a management group that represents a balance of business experience. The top management team described in the letter to shareholders illustrates that kind of balance, we believe. It represents a blend of administrative, merchandising, financial and entrepreneurial backgrounds.

The establishment of this management team was the final step in Dayton Hudson's transition from a local, family-owned company to a professionally managed public corporation of national stature. In making this transition, we have maintained and defined a balanced commitment to our four principal publics:

- The people we serve.
- The people who *are* Dayton Hudson.
- The people who have invested in us.
- The people whose communities we share.

Customers

We feel strongly that every one of our stores must constantly answer two questions:

Employees

Perhaps more than in any other industry, the character of a retail company is a reflection of the abilities of the individuals who operate it. Merchandise and buildings do not in themselves provide a competitive edge. The real difference is people. We are therefore committed to the personal and professional development of all of our 32,000 full-time and part-time regular employees. Our rationale: By giving each person the opportunity to develop his or her skills to the fullest, we contribute very directly to the Corporation's ability to serve our customers, shareholders and communities.

Specifically, we are pledged to provide our employees the opportunity to:

—Develop their full potential through education, training and work experience.
—Advance in position and responsibility consistent with proven performance.
—Work in an atmosphere that encourages initiative and creativity.

Shareholders

The balance point for all of our operations—the focus of all of our efforts—is our fundamental goal of providing shareholders with an optimum return on their investment over time. That is the reason we have established profit growth objectives that are among the most challenging in the industry. Long-term profit is the key to serving all of our publics well and the gauge of how well we are serving our shareholders.

Performance aside, we are committed to keeping our shareholders and the financial community fully informed through candid, thorough and timely disclosure of the facts about our business.

Communities

Dayton Hudson has long recognized that a healthy social climate is essential to a healthy business climate. For the past 32 years we have backed that position by contributing an amount equal to 5% of taxable income toward improving the quality of life in the communities in which we operate. Dayton Hudson also encourages employees to contribute their time, talent and leadership to community service, and works to stimulate maximum corporate giving by other businesses.

In 1977, donations by the Corporation and the Dayton Hudson Foundation totaled $5.4 million. The major portion of this was directed toward two community-based areas: arts institutions and organizations, and social-action programs with an emphasis on the disadvantaged and youth.

A copy of the report on corporate contributions for 1977 is available by writing Senior Vice President-Environmental Development, Dayton Hudson Corporation, 777 Nicollet Mall, Minneapolis, Minnesota 55402

Top management team, from left: K N. Dayton, Chairman, Executive Committee, Richard L Schall, Vice Chairman of the Board, Stephen L Pistner, President, and William A Andres, Chairman of the Board

Tabletop trends at Dayton's Burnsville store

Retailing: A Balance of Basics and Growth

Revenues from Retail operations were \$2,125,669,000, up 14% from \$1,857,794,000 in 1976. Retail net earnings were \$74,675,000, compared with \$63,203,000. Retail earnings per share were \$4.66, up from \$3.96.

Total stores increased from 413 to 474 during 1977. Retail space grew by 1.4 million square feet, our biggest one-year increase in six years.

Dayton Hudson's 10 Retail operating companies represent three separate strategies: department stores, low-margin stores and specialty stores. These are three distinctly different approaches to the consumer. Each has its own special advantages—both from the customer's standpoint and from ours. Together they provide the balanced base of performance and growth that underlies our aggressive five-year expansion plans.

These plans represent a major step-up in Retail expansion during the 1978-82 period. They call for a total investment of \$800 million in carefully programmed growth. That compares with the \$580 million in planned investment for the 1977-81 period, as described in our annual report last year.

Of particular significance is the increased proportion of capital allocated to the expansion of Target, the primary component of our low-margin group. Our basic growth strategy for this group is to expand Target as rapidly as its performance justifies. Target's plan is to more than double its retail space in the next five years. It plans to add 68 stores, raising its total to 127. To fuel that growth, Target's share of planned 1978-82 capital investment is about \$450 million. This means that for the first time we are directing more than half of our capital to the low-margin group. By the end of 1982, we plan to have 47% of our retail space in low-margin stores, compared with 35% today.

Department stores and specialty stores also will be expanding at a faster rate. Twenty-two department stores and nearly 400 specialty stores are planned for this five-year period, compared with the 13 department stores and 234 specialty stores added during the past five years.

For the department store group, the emerging growth opportunity is in regional expansion, a strategy requiring the skillful application of chain-store concepts to fashion merchandising. For the specialty store group, the primary thrust is the continued rapid expansion of B. Dalton into a growing variety of retail settings.

In each case, our growth program is directed first at maintaining or enhancing our competitive position in existing markets, thus strengthening the foundation for possible expansion beyond these markets.

While we are directing a major portion of our resources and management to programmed growth, we are focusing equal attention on the basic ingredients of our business: developing management, staying close to our customers and their needs; offering dominant selections, quality, fashion and value; ensuring a climate for creative and innovative merchandising; offsetting the rising costs of doing business through techniques for improving productivity. Payroll costs have been rising steadily and rapidly. We have responded by supplying our employees with tools to enable them to be more productive, to serve our customers better and faster. That has meant a substantial capital investment in management information systems (MIS) and computerized equipment. Our cumulative investment through 1977 was approximately $62 million, and we project an additional investment in the 1978-82 period of $45 million.

This investment in electronic point-of-sale communications and business systems and computers gives us a proven cost-effective approach to improving service to our customers. It is also providing us with better financial control and increased productivity during a period of significant business growth and inflationary pressure. The Corporation is committed to using systems technology to sustain our return-on-investment performance.

The retail industry accounts for a relatively small percentage of total energy consumption in the United States. Yet energy shortages and the rising cost of energy have a direct impact on our cost of doing business and on the ability of our customers to do business with us. In recent years, therefore, Dayton Hudson's operating companies have been bearing down on programs to conserve energy.

Our Real Estate company — Dayton Hudson Properties — has initiated an energy research and development program, and organized a technical staff to assist our 10 Retail companies in the design and operation of energy management systems. Target, for example, has linked many of its stores to area computer centers that monitor energy needs and hold consumption at optimum levels around the clock. Through experimentation, Hudson's has developed a new lighting system that has both improved illumination and cut electric bills. Our new stores are being built with improved insulation, reduced electrical loads and designs that incorporate energy management systems and minimize the loss of conditioned air through doors and loading docks. When practical, these improvements are being made in existing stores as well.

We estimate that corporate-wide conservation efforts avoided energy costs of nearly $4 million in 1976 and $5 million in 1977.

Department Stores

Annual revenues of the department store group exceeded $1 billion for the first time in 1977, increasing 11% to $1,053,305,000. Operating profit* increased 10% to $103,022,000.

The department store group was the chief factor in Dayton Hudson's earnings improvement in 1977, and Hudson's was the chief factor in the group's improvement. Hudson's revenues increased

Hudson's Novi store: A network of boutiques

Topping $1 Billion in Revenues

12%; its operating profit increased 19%, setting a record for the third year in a row. Hudson's performance continues to reflect the company's ability to manage a fashion-oriented department store operation with chain store concepts. Dayton's revenues were up 8%, but its operating profit was off 5% from its record performance in 1976. As a group, the western department stores — Diamond's, Lipmans and John A. Brown — reported a 10% increase in revenues and a 14% increase in operating profit. All of the earnings improvement came from Lipmans and John A. Brown, how-

*Earnings before corporate expense, interest and income taxes

Women's fashions at Dayton's.

Revenues	1977	1976
Hudson's	$ 575,053,000	$512,600,000
Dayton's	308,620,000	284,773,000
Diamond's	82,393,000	77,220,000
Lipmans	46,744,000	43,344,000
John A. Brown	40,495,000	34,333,000
Total	$1,053,305,000	$952,270,000

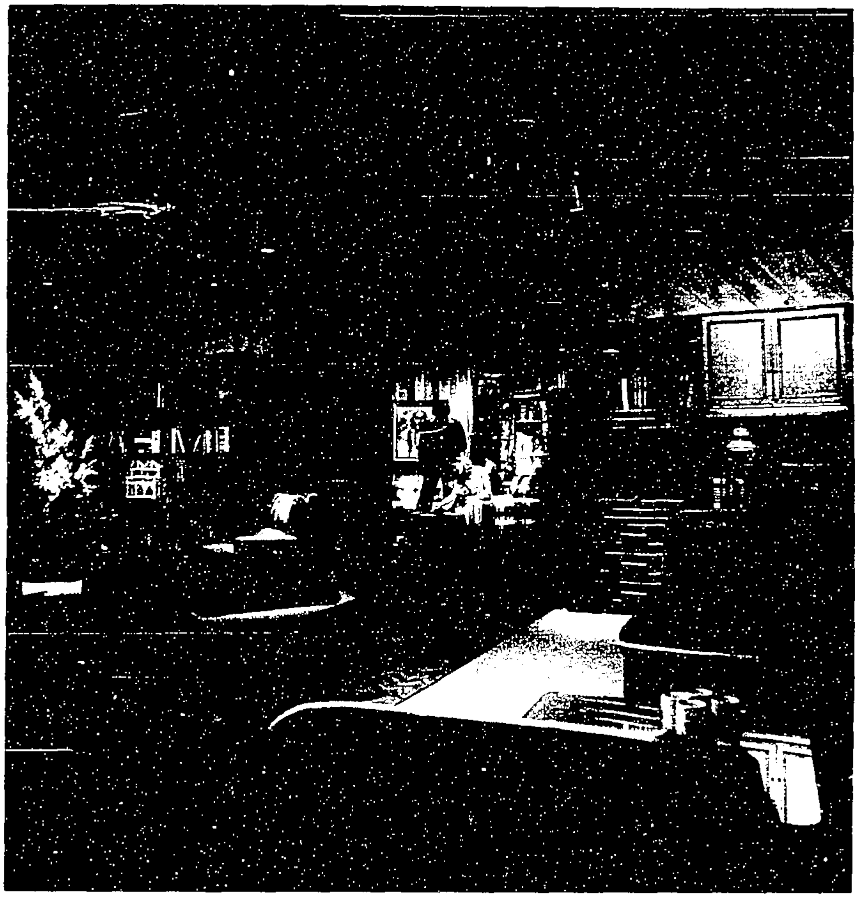
ever. Diamond's operating profit was 11% below its 1976 contribution.

Hudson's and Dayton's each opened one store in 1977, raising the department store group's total to 46 stores at year end. Hudson's added a 240,000-square-foot store in Novi, Michigan, near Detroit. Dayton's opened a 173,000-square-foot store in Burnsville, Minnesota, near Minneapolis.

Three of five new department stores planned for 1978 are already in operation. Diamond's opened a 125,000-square-foot store in West Las Vegas early in February. It is Diamond's second store in Las Vegas and its eighth over-all. Also in February, Hudson's opened a 206,000-square-foot store in Sterling Heights, Michigan — its tenth in the Detroit area and fifteenth over-all. Late in March, Dayton's opened its third free-standing home store, this one an 83,000-square-foot unit near Southdale Shopping Center in suburban Minneapolis.

Dayton's will continue its regional expansion in August with the opening of 100,000-square-foot stores in Grand Forks, North Dakota, and Sioux Falls, South Dakota. They will give Dayton's a total of 15 stores, five of them outside of the Minneapolis-St. Paul market.

The expansion strategy of both Hudson's and Dayton's is designed to capitalize on the wide recognition that they enjoy in the regions surrounding their core market areas. Customer response to our initial remote stores has confirmed our belief that regional expansion of this type now provides the most promising growth opportunity for department stores.



Fashion in furniture at Dayton's new home store near Southdale.

Men's fashions at Hudson's.

Low-Margin Stores

Revenues of the low-margin group increased 18% to $858,781,000 in 1977. Operating profit increased 14% to $53,542,000. The change in operating profit as a percentage of revenues is in part a reflection of a more competitive retail environment. But it also relates to Target's strategy for improving market share. By combining accelerated expansion with reduction in gross margins was its strongest improvement since 1972. Its operating profit increased even more sharply.

Target accelerated its expansion with seven openings in 1977. All are in existing markets — the third Target in Omaha, fourth in Milwaukee, fifth in Dallas, sixth in Houston and in Denver, seventh in St. Louis and eleventh in

One of seven Target stores opened in 1977.

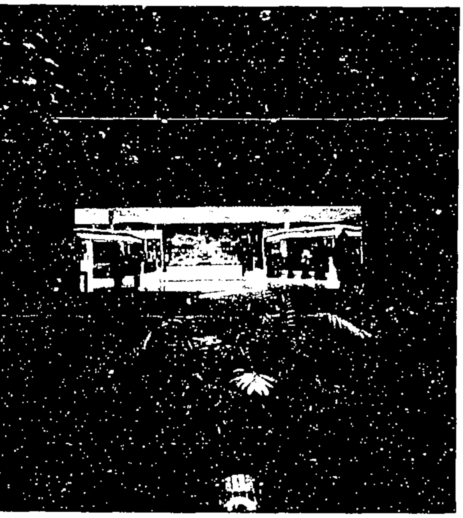
Stepping Up the Rate of Growth

in 1977, Target was able to achieve a significant increase in gross margin dollars, while at the same time offering additional value to its customers.

Revenues	1977	1976
Target	$729,027,000	$613,392,000
Lechmere	129,754,000	111,868,000
Total	$858,781,000	$725,260,000

Target increased revenues by 19%—approximately the same percentage as in each of the previous two years. Since 1974, Target's revenues have grown by 71% and its operating profit by 171%. Lechmere's 16% increase in revenues

Women's apparel at Target



Lechmere's new store in Manchester, New Hampshire.

Minneapolis-St. Paul. Target's expansion technique is to build toward an optimum number of stores in a market to take advantage of the cost efficiencies that a concentration of stores provides — most notably in advertising and distribution. However, once Target has firmly established its position in a principal market, it will consider expansion to smaller communities within the region. In fact, it has plans to open in two such markets in North Dakota during 1978 — Fargo and Grand Forks. In all, Target plans nine openings in 1978, the other seven in existing markets. The openings will bring Target's store total to 68 and its retail space to 7 million square feet.

Last September, Lechmere opened a store in Manchester, New Hampshire. The store is Lechmere's fifth, its first outside of Massachusetts and its first to use a new design aimed at maximizing the space available for merchandise presentation. It has 82,000 square feet of retail space. Other Lechmere stores range from 159,000 to 249,000 square feet.

Lechmere plans to open another 82,000-square-foot store in Framingham, Massachusetts, later this year.

Specialty Stores

Growing-and Earning

Specialty store revenues increased 19% to $213,583,000 in 1977. Operating profit was $19,099,000, up 50%.

Revenues	1977	1976
B Dalton, Bookseller	$137,965,000	$106,808,000
Dayton Hudson Jewelers	37,645,000	34,058,000
Team Electronics	37,973,000	39,398,000
Total	$213,583,000	$180,264,000

B. Dalton's 29% increase in revenues made it our fourth largest operating company in revenues. It has been our fourth largest profit producer for several years, and its profit improvement continued to outpace its sales growth in 1977. Dayton Hudson Jewelers' 11% revenue increase was its best in six years; its improvement in profitability was an important factor in the group's increase in operating profit. Team Electronics' revenues declined 4%, reflecting the sharp fall-off in sales of citizens-band radios. Despite lower revenues, however, Team managed to produce a modest increase in operating profit for the year.

B. Dalton had a net increase of 48 stores in 1977, raising its total to 298. Included were the company's first stores in Utah and New Hampshire, raising the number of states in which it operates to 39. A growing number of B. Dalton stores are being opened in central business districts and smaller shopping centers. Openings in 1977 ranged from a 12,000-square-foot store in downtown Philadelphia — B. Dalton's largest store so far — to a 1,375-square-foot unit in Mason City, Iowa. Of approximately 60 bookstores planned for 1978, less than half will be in major regional centers. Among new central-business-district stores will be two of the largest bookstores in the nation: a 20,000-square-foot store in downtown Chicago and a 25,000-square-foot store on Fifth Avenue in New York.

Two new specialty stores at Twelve Oaks Mall, Novi, Michigan

Dayton Hudson Jewelers opened its eighth J. B. Hudson store in Minnesota and its eighth Charles W. Warren store in Michigan during 1977. Team increased its company-owned stores by one to 23. Team's franchised stores numbered 88 at year end, an increase of three. Two jewelry stores and four company-owned Team stores are scheduled to open in 1978, along with nine franchised Team stores.

Shift In Strategic Direction

The exciting opportunities for growth that are available to us in our Retail business have led management to conclude it should redeploy the capital invested in Real Estate assets.

Accordingly, the company has signed an agreement to sell nine wholly owned regional shopping centers to The Equitable Life Assurance Society.

The agreement calls for a purchase price of at least $305 million, with an additional amount ranging up to a maximum of approximately $50 million to be paid if the shopping centers' performance exceeds certain predetermined standards in 1978 and 1979.

The Equitable will pay $185 million in cash at the time of closing and assume ownership subject to related mortgage obligations of approximately $120 million. The Corporation has excluded from the sale the land and buildings occupied by its department stores in these centers.

The net book value of the shopping centers at the end of 1977 was approximately $85 million. Based upon the minimum selling price, the Corporation expects to report an after-tax gain of approximately $140 million from the sale. The closing is expected during fiscal 1978.

These properties produce results that are very good by real estate industry measures. They do not, however, produce earnings per share or return on investment equal to what we are achieving in our Retail business.

Management intends to further recommend to the Board of Directors the future sale or disposition of other Real Estate interests that are not directly employed in the Corporation's Retail business. Any such decision will be conditioned upon obtaining satisfactory prices and terms in each instance deemed compatible with existing commitments and the interests of the shareholders, employees, joint venture associates and others who might be affected by any such transaction.

The Corporation has not decided to discontinue the management and development services related to these Real Estate interests and is continuing to study their role in such operations.

The Dayton Hudson Properties organization will continue to provide the Corporation with a reservoir of Real Estate management and development expertise that we expect to be of significant value in our accelerated Retail expansion program.

Twelve Oaks Mall: A Dayton Hudson Properties joint venture.

Dayton Hudson Properties

Rental revenues from tenants totaled $43,607,000 in 1977, an increase of 7% over 1976. Income from operating properties totaled $24,679,000, up 11.6% from the previous year. Funds provided by operations for the year were $11,970,000, an increase of 10.6%. Net earnings were exceptionally strong, totaling $6,226,000, compared with $2,460,000 in 1976. Earnings per share increased to 39 cents, compared with the 15 cents per share realized the previous year. Approximately 16 cents per share of the 1977 earnings came from property sales, compared with 11 cents per share in 1976.

Dayton Hudson Properties' third joint-venture opened in 1977. Twelve Oaks is a one-million-square-foot shopping center in Novi, Michigan, 25 miles northwest of Detroit. DHP's associates in the center are Homart Development Company and the Taubman Company.

During 1978, DHP plans to open wholly owned shopping centers in Las Vegas, Nevada, and Grand Forks, North Dakota. These will be the second and third regional centers developed by DHP outside Michigan and Minnesota. The first, Woodland Hills Mall, opened in Tulsa, Oklahoma, in 1976.

In addition, a wholly owned "mini-mall" is scheduled to open adjacent to a Target store in Burnsville, Minnesota, in 1978.

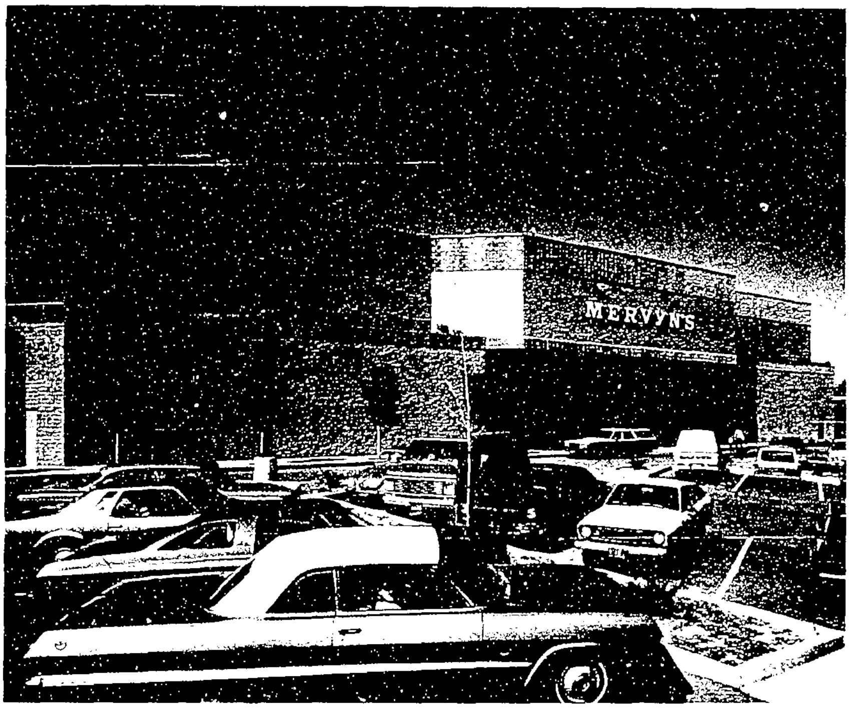
Two joint-venture centers are scheduled for 1979 openings, one in Benton Harbor, Michigan, and one in Phoenix, Arizona. Joint-venture centers are also scheduled for Kalamazoo, Michigan; Oklahoma City, Oklahoma; and LaCrosse, Wisconsin, in 1980.

DHP completed an expansion of Rosedale Shopping Center in the Twin Cities during 1977. Additions included 52,000 square feet of tenant space and a 169,000-square-foot J. C. Penney store.

Mervyn's

As fiscal 1977 drew to a close, Dayton Hudson reached agreement in principle to merge with Mervyn's, a California-based softlines specialty retailer. Our Board of Directors has since approved this transaction, and a definitive agreement has been signed by both companies, subject to the approval of shareholders. The merger also is subject to a ruling by the Internal Revenue Service, or a legal opinion, that the transaction will be tax-free to Mervyn's shareholders.

About Mervyn's: In the five years 1973 through 1977, it grew from 11 stores to 42. Its sales increased from $90.1 million to $360.6 million — compound annual growth of 43%. Net earnings grew from $3.3 million to $17.8 million — compound annual growth of 51%.



Tustin, California, store one of seven stores opened in 1977

Proposed Merger

The proposed merger represents the Corporation's largest single expansion since the union of Dayton and Hudson in 1969. Today Mervyn's operates 40 stores in California, two in Nevada and two opened in March 1978 in Arizona. It concentrates on an offering of popular-priced apparel, accessories and household softgoods. Apparel accounted for more than 80% of 1977 sales.

As described in the company's 1976 annual report, Mervyn's merchandising approach "combines fashion with quality at a price which appeals to the value-conscious family." To reinforce its reputation as a soft-goods specialist, Mervyn's policy is to maintain comprehensive assortments of sizes and styles in such national brand names as Levi's,® Adidas,® Playtex,® Buster Brown,® Cannon,® Burlington® and Healthtex,® as well as in private label merchandise.

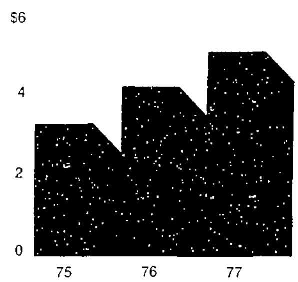
We describe Dayton Hudson as a balanced retailer. In our view, Mervyn's would add to that balance, both geographically and strategically. Mervyn's retailing approach is compatible with Dayton Hudson's merchandising philosophy; its emphasis on expansion complements our strategic growth plans; its market area augments ours.

Shareholders of both companies will vote on the proposed merger at their annual meetings.

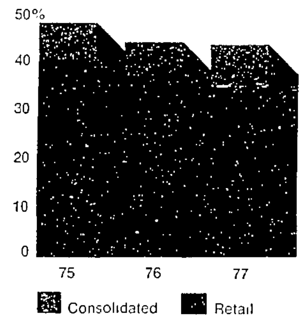

Mervyn's specializes in softlines

Financial Review

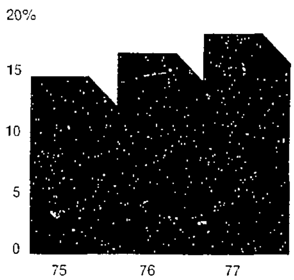
EARNINGS PER SHARE GROWTH



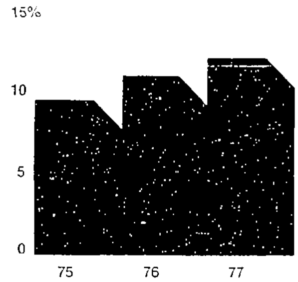
DEBT RATIO



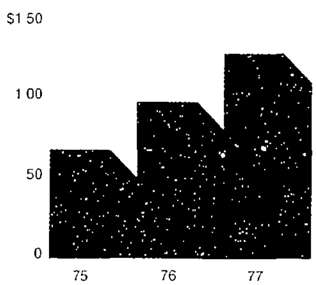
RETURN ON EQUITY



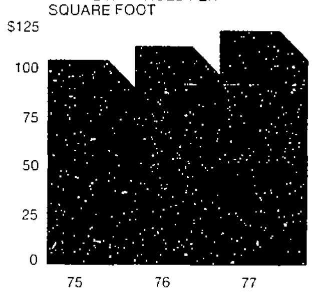
RETAIL RETURN ON INVESTMENT



DIVIDENDS PER SHARE



RETAIL REVENUES PER SQUARE FOOT



Line of Business Reporting

We present separate financial statements for our two lines of business — Retail and Real Estate — to give as clear a picture of each operation as possible We believe the performance and financial structure of each business can best be judged against the standards of its own industry.

Financial Goals

Dayton Hudson Corporation's primary financial objective is to provide its shareholders with an optimum return on investment over time through a combination of increased dividends and a higher stock price. To meet this objective, our aim is to grow and earn at a rate among the best in the industry.

Our specific goals are to earn a consistent return on beginning shareholders' equity of at least 14% and sustain an annual growth in earnings per share of at least 10%. Our return on beginning shareholders' equity in 1977 was 18.1%, compared with 16.6% in 1976 and 14.4% in 1975. Earnings per share increased 23% in 1977, and have increased at a compound annual growth rate of 24% over the past five years and 12% over the past 10.

Future achievement of our goals will depend upon our ability to:

— Continue to earn a high return on existing assets, and
— Identify high-return strategies for future investments.

Return on investment (ROI) is the key to earnings growth and return on equity. ROI is the product of investment turnover and return on sales.

$$\text{ROI} = \frac{\text{Sales}}{\text{Investment}} \times \frac{\text{Earnings}}{\text{Sales}} = \frac{\text{Earnings}}{\text{Investment}}$$

After-tax earnings are adjusted to exclude financing costs. Investment is the sum of working capital and non-current assets, including the present value of all leases.

For our Retail business, after-tax ROI was 11.9% in 1977, compared with 10.9% in 1976 and 9.4% in 1975. These increases have been a result of continuing improvement in asset productivity and return on sales.

	ROI	=	Investment Turnover	×	Return on Sales
1977	11.9%	=	3.01	×	3.96%
1976	10.9%	=	2.80	×	3 90%
1975	9.4%	=	2.56	×	3.66%

The following table shows the investment and the return thereon for fiscal 1977 and 1976:

Retail	(Millions of Dollars) 1977	1976
Net Earnings	$ 74.7	$ 63.2
Interest Expense After Tax	4.3	4.2
Interest Equivalent in Leases After Tax (a)	5 2	4 9
Earnings Before Financing Costs	$ 84.2	$ 72.3
Beginning of Year Investment:		
Working Capital (b)	$247.5	$247 3
Net Property and Equipment	310.7	276.5
Other Assets	7.1	3 8
Present Value of All Leases	140 0	134.7
Total Investment	$705 3	$662.3
Return on Investment	11.9%	10.9%

(a) The interest equivalent in lease obligations is determined by assuming a 3.7% after-tax interest rate on beginning of year present value of leases.

(b) Current assets less current liabilities (excluding interest-bearing debt).

Return on Investment is the primary financial tool used by Dayton Hudson to manage its business:

— Performance Appraisal
The management of each operating company is evaluated and compensated first on the basis of its ability to meet an agreed-upon standard for ROI, and then — once that ability has been fully demonstrated — on the basis of the company's growth in earnings.

– *Capital Allocation*

To receive capital for growth, an operating company must exceed its ROI standard. Additional criteria for allocating available capital include anticipated return on new investment, development of market position, the strength of the management team, and the quality of its strategic plan.

– Capital Project Evaluation

New investment and capital projects are subject to a common discipline of analysis. Each project is expected to achieve an ROI of at least 12% by the fifth full year of operation, and a discounted cash flow (internal rate of return) of at least 10% over the life of the project.

As indicated in the review of Real Estate operations, our focus on ROI has led to the conclusion that capital invested in nine shopping centers would produce a better return if invested in our Retail business. Although the performance of our Real Estate properties is very good as measured against the standards of the real estate industry, it does not produce earnings or ROI equal to those of our Retail business.

Financial Policies

The Corporation operates under clearly defined financial policies designed to maintain a strong, conservative capital structure and strengthen the "A" rating of our senior debt. These policies are intended to provide maximum flexibility as to sources of funds and to minimize our cost of funds. Different financing methods and capital structure are considered appropriate for our Retail and Real Estate lines of business.

1. **Financing Methods:** The greater part of our Retail expansion has been financed with internally generated funds. Because we own the majority of our department and low-margin stores, depreciation provides a significant source of cash flow. We currently plan to finance the expansion of our department store and low-margin operations with retained earnings and depreciation, using unsecured debt as needed, and to lease the majority of new specialty stores.

2. **Capitalization Policies:** Our target debt ratio, inc' ,g recognition of the present value of all lease obligations, 3 40%. We ended 1977 with a ratio of 43%, compared with 44% at the end of 1976 and 48% at the end of 1975. This steady improvement is the result of internal cash flow more than meeting our needs for capital and dividends in each of those periods. The sale by Dayton Hudson Properties of nine regional shopping centers will further improve our debt ratio, as the profit on the sale will produce a sizable increase in equity. Management expects that the debt ratio will be in the range of 35% to 45% during the next five years.

The following table reflects our current capitalization as well as the segmentation of our capital structure between Retail and Real Estate:

(Millions of Dollars)

	Retail	Real Estate	Consolidated
Notes Payable	$ -0-	$ -0-	$ -0-
Long-Term Debt (Current and Non-Current)	123	130	253
Present Value of Capital Leases	44	-0-	44
Present Value of Operating Leases	103	-0-	103
Total Debt and Equivalent	270	130	400
Deferred Credits	12	9	21
Equity	490	20	510
Total Capitalization	$772	$159	$931
Debt Ratio (Total Debt and Equivalent as a percentage of Total Capitalization)	35%	82%	43%

3. **Dividend Policy:** It is our policy to make regular increases in dividends per share of common stock consistent with earnings growth over time. When making dividend recommendations to the Board of Directors, management has used as a guideline approximately 30% of the prior year's earnings. A reduction in per share dividends would be considered only under severe economic or financial conditions.

The quarterly dividend was increased twice in 1977, as it was in 1976. Dividends paid in 1977 to holders of common shares totaled $1.25 per share, a 30% increase over 1976. The quarterly rate was increased to $.35 for the dividend payable December 9, 1977. The current annualized rate of dividends is $1.40 per share.

Financial Position

We continued to improve our strong financial position in 1977 through increased earnings and continued effective asset management. Our commercial paper is rated A-1/P-1 and our long term debt A/A.

- **Working Capital** increased only $5 million during 1977. Year-end working capital was 11.4% of revenues, compared with 12.8% in 1976 and 13.6% in 1975.
- **Capital Expenditures** during 1977 reflected an aggressive growth program made possible by our solid financial base and strong competitive performance. Retail capital investment, including the present value of new leases, totaled $109 million, versus $80 million in 1976 and $39 million in 1975. Real Estate investment, including our proportionate share of joint-venture expenditures, totaled $35 million, compared with $28 million in 1976 and $22 million in 1975.

1977 Capital Investment
(Millions of Dollars)

	Retail	Real Estate	Consolidated
Capital Expenditures	$ 92.4	$ 27.0	$119.4
Present Value of New Leases	16 9	–	16 9
Share of Joint Ventures	–	8.1	8.1
Total	$109 3	$ 35.1	$144.4

For the 1978-1982 period, we currently plan to invest $800 million in our existing Retail businesses. This includes 22 department stores, 70 low-margin stores, and nearly 400 specialty stores, for a total of over 10 million square feet of additional retail space. Approximately $450 million of the total has been allocated to Target.

The greater part of this capital investment will be funded internally. The sale of nine of our regional shopping centers will provide more than $100 million in cash for investment in retail expansion. We will add $35 million of privately placed debt in 1979 and will require additional long-term debt in later years.

Summary and Analysis of Operations

Consolidated earnings per share increased 23% in 1977, compared with an increase of 28% in 1976 and 105% in 1975. The table below reconciles the change in earnings for 1977 versus 1976, and for 1976 versus 1975.

	1977	1976	1975
Retail Earnings Per Share	$4.66	$3 96	$3.23
Real Estate Earnings (Loss) Per Share	.39	15	(01)
Consolidated Earnings Per Share	$5.05	$4.11	$3.22
Change from Prior Year	$ .94	$ .89	

Variance Analysis: Retail Line of Business	Earnings Per Share Impact 1977 vs 1976	1976 vs 1975
Change in Net Earnings due to·		
Sales Volume	$ 55	$ .38
Gross Margin Rate	(06)	.04
Operating Expense Rate	11	.28
Start-up Expense	(07)	(18)
Corporate Expense	(.02)	.06
Income Tax Rate	.06	—
Other Factors	.13	.15
Retail Earnings Change from Prior Year	$ .70	$ .73
Real Estate Line of Business		
Change in Net Earnings due to:		
Operating Income	$ .08	$ .07
Gain from Property Sales	.05	.10
Joint Ventures	.06	(.02)
Other	.05	.01
Real Estate Earnings Change from Prior Year	$ 24	$ .16
Total Consolidated Earnings Change from Prior Year	$ .94	$ .89

Significant Factors Affecting Earnings: Retail Operations

- Revenues in 1977 increased 14.4% from the prior year, compared with a 12.3% gain in 1976. From 1972 to 1977, the compound annual growth rate for total revenues was 11%.

	1977 (Millions of Dollars)	1976	Increase All Stores	Comparable Stores
Department Stores	$1,053.3	$ 952.3	10.6%	6.7%
Low-Margin Stores	858.8	725.2	18 4	8.1
Specialty Stores	213.6	180.3	18.5	9 8
	$2,125.7	$1,857.8	14.4%	7.6%

Comparable-store revenues exclude the contribution of stores opened during the preceding 12 months. The 7.6% increase in comparable-store revenues in 1977 compares with an 8.3% increase in 1976 and an 8.5% increase in 1975. Approximately one-half of the comparable-store increase in revenues was due to inflation in both years.

The greatest improvement in sales productivity per square foot was produced by the low-margin stores. Specialty stores continue to provide the highest sales volume per square foot.

	Revenues Per Square Foot* 1977	1976	1975
Department Stores	$106	$101	$ 97
Low-Margin Stores	130	120	108
Specialty Stores	169	162	148

*Average of beginning and end of year square feet

- **Gross Margin Rate** declined in 1977, primarily because of the more competitively promotional retail environment and the increasing proportion of low-margin stores in the total business. The margin improvements in 1976 compared with 1975 resulted in large part from improved merchandise mix emphasizing the higher margin departments.
- **Operating Expenses** continued to decline as a percentage of sales—27.3% in 1977, compared with 27.5% in 1976 and 28% in 1975. The percentage relationship of operating expenses to sales measures the relative amount of each sales dollar that is required for occupancy expense, payroll, advertising, and other expenses directly supporting the Retail function. The improvement in 1977 reflects the increasing relative size of Target and B. Dalton, which typically incur lower operating expenses per sales dollar than the department stores. The 1976 improvement resulted from productivity increases of non-payroll costs in low-margin stores.
  - —Maintenance and repairs expense increased $1.9 million in 1977 and $0.2 million in 1976. The higher 1977 expenses resulted from increased maintenance programs in the department store group.
  - —Depreciation and amortization expense increased 15.3% in 1977 and 10% in 1976 because of the increasing rate of new store openings.
  - —Taxes other than income taxes increased $5 2 million in 1977 and $1.8 million in 1976 because of higher payroll taxes resulting from increased salaries and tax rates.
  - —Rental expense increased 13.6% in 1977 and 7.6% in 1976 as a result of new leases and higher percentage rentals.
  - —Advertising expense increased $5.9 million in 1977 and $5.7 million in 1976, principally reflecting new store openings in both years.
- **Start-Up Expenses** were $13.4 million in 1977, $11.1 million in 1976 and $5.1 million in 1975. These increases reflect our much higher rate of expansion beginning in 1976. In 1977, the Corporation opened two department stores, eight low-margin stores and 55 specialty stores, while closing four specialty

stores — a net addition of 1,414,000 square feet of Retail space. That compares with a net addition of 935,000 square feet in 1976.

	End of 1977		End of 1976	
Department Stores	Stores	Space*	Stores	Space*
Hudson's	14	5,277	13	5,037
Dayton's	13	2,825	12	2,629
Diamond's	7	862	7	862
Lipmans	7	674	7	674
John A. Brown	5	488	5	488
Total	46	10,126	44	9,690
Low-Margin Stores				
Target	59	6,117	52	5,385
Lechmere	5	882	4	800
Total	64	6,999	56	6,185
Specialty Stores				
Jewelers	43	176	41	172
B. Dalton	298	1,112	250	956
Team**	23	58	22	54
Total	364	1,346	313	1,182
Total Retail Stores	474	18,471	413	17,057

*Thousands of square feet (excluding office, warehouse, and vacant space)

**Includes only 100% owned stores; 88 and 85 Team stores were franchised in 1977 and 1976 respectively.

In 1978, the Corporation plans to open five department stores, 10 low-margin stores and more than 60 specialty stores, for a total of approximately 1.8 million square feet of additional Retail space.

- **Corporate Expense** was $13.2 million in 1977, compared with $12.5 million in 1976 and $14.6 million in 1975. The 1977 increase reflects higher staff expense and charitable contributions, partially offset by lower expenses for anticipated exercise of stock appreciation rights The decrease in 1976 was a result of lower expenses for anticipated exercise of stock appreciation rights (see Note I of Notes to the Financial Statements).
- **Income Tax Rate** for Retail was 51.4% in 1977, 52% in 1976 and 52.1% in 1975.

Real Estate Operations

- **Rental Revenue** from operating properties increased 7% in 1977 to $43.6 million. That compares with $40.8 million in 1976 and $36.3 million in 1975. The increase in 1977 was principally a result of increased percentage rentals based on tenant sales, and a continuing program to upgrade tenants in older centers. Additions to leasable space in 1976 contributed to growth in minimum rental revenue.
- **Income from Operating Properties** totaled $24.7 million in 1977, compared with $22.1 million in 1976 and $20.2 million in 1975. This favorable trend is a result of increasing revenues and continued control of expenses.
- **Interest Expense** was lower in 1977 and 1976 because of increased interest earned on funds advanced to Retail, partially offset by higher interest expense from the refinancing of two shopping centers in late 1976. In 1977, interest expense was also favorably affected by the assumption of long-term debt by the purchaser of office buildings sold in 1976.
- **Depreciation and Amortization Expense** was $5.7 million in 1977 compared with $6.5 million in 1976 and $6.1 million in 1975. The lower expense in 1977 reflects the sale of office buildings in late 1976.
- **Development Expense** was $1.5 million in 1977, compared with $1.9 million in 1976 and 1975. The decrease was due primarily to the completion of expansion projects at two shopping centers in 1976.
- **Property Sales** produced a pretax gain of $5 million in 1977, compared with $3.3 million in 1976 and $0.9 million in 1975. The increase in 1977 is a result of collections on prior-year installment sales and disposals of excess land. The 1976 increase was primarily attributable to the sale of office properties.
- **Funds Provided by Operations** totaled $12 million in 1977, compared with $10.8 million in 1976 and $8.7 million in 1975. Funds Provided by Operations is equivalent to cash generated by operations before principal payments on long-term debt and is regarded by the investment building industry as an important measure of real estate performance.
- **Joint-Venture Losses** decreased $1.9 million in 1977, primarily as a result of lower development expense and gains recognized on disposals of excess land surrounding shopping centers. In 1976, joint-venture losses increased $0 5 million as a result of pre-opening expenses, depreciation, and interest at two regional shopping centers opened in 1976.
- **Results of Operations** for 1977 and 1976 include $41.2 million and $35.5 million, respectively, of revenues and $4.5 million and $3.7 million, respectively, of net earnings applicable to nine wholly owned regional shopping centers whose sale is pending See Note P of Notes to Financial Statements.

Common Stock Price and Dividend Data

Common stock of the Corporation is listed on the New York Stock Exchange with the symbol **DH** and abbreviated in newspapers as **DaytHd.** The number of shareholders decreased 3.1% to 10,474 in 1977 from 10,814 in 1976.

	Common Stock Price Range				Quarterly Dividend Per Share	
Fiscal	1977		1976			
Quarter	High	Low	High	Low	1977	1976
First	$36¾	$30¾	$35½	$29¼	$ .30	$ .21
Second	35	29½	33⅜	26¼	30	25
Third	40½	34½	32¼	28¼	30	.25
Fourth	43⅞	37	38⅜	32¼	.35	.25
Year	$43⅞	$29½	$38⅜	$26¼	$1.25	$ 96

Results of Operations

Dayton Hudson Corporation and Subsidiaries

RETAIL

(Thousands of Dollars, Except Per Share Data)

	1977	1976
REVENUES		
Net retail sales, including leased departments and carrying charges	$2,123,815	$1,856,013
Rental revenue	1,854	1,781
	2,125,669	1,857,794
COSTS AND EXPENSES		
Cost of retail sales, buying and occupancy	1,492,583	1,303,863
Selling, publicity and administrative	372,554	328,071
Depreciation and amortization	30,118	26,122
Rental expense	27,985	24,645
Interest expense	8,854	8,677
Taxes other than income taxes	39,979	34,745
	1,972,073	1,726,123
EARNINGS BEFORE INCOME TAXES	153,596	131,671
INCOME TAXES (Note F)		
Current	69,377	59,317
Deferred	9,544	9,151
	78,921	68,468
NET EARNINGS	$ 74,675	$ 63,203
NET EARNINGS PER SHARE	$ 4.66	$ 3.96

See accompanying Summary of Accounting Policies and Notes to Financial Statements.

REAL ESTATE

(Thousands of Dollars, Except Per Share Data)

OPERATING PROPERTIES

Rental revenue

Operating expenses

OTHER (INCOME) EXPENSE

Interest expense:

Operating

Development

Other

Depreciation and amortization

Development expense

Gain from property sales

Other, net

EARNINGS BEFORE EQUITY IN EARNINGS (LOSS) OF JOINT VENTURES AND INCOME TAXES

EQUITY IN EARNINGS (LOSS) OF JOINT VENTURES (Note G)

EARNINGS BEFORE INCOME TAXES

INCOME TAXES (Note F)

Current

Deferred

NET EARNINGS

NET EARNINGS PER SHARE

	1977	1976
	$43,607	$40,750
	18,928	18,648
	24,679	22,102
	8,104	8,534
	190	280
	296	440
	5,717	6,481
	1,464	1,929
	(4,970)	(3,300)
	411	219
	11,212	14,583
	13,467	7,519
	(1,040)	(2,929)
	12,427	4,590
	7,288	3,251
	(1,087)	(1,121)
	6,201	2,130
	$ 6,226	$ 2,460
	$ .39	$ .15

CONSOLIDATED

(Thousands of Dollars, Except Per Share Data)

	1977	1976
REVENUES		
Net retail sales, including leased departments and carrying charges	$2,123,815	$1,856,013
Rental revenue	45,461	42,531
	2,169,276	1,898,544
COSTS AND EXPENSES		
Cost of retail sales, buying and occupancy	1,503,260	1,313,835
Selling, publicity and administrative	376,140	334,962
Depreciation and amortization	35,835	32,603
Rental expense	27,985	24,645
Interest expense	17,444	17,931
Taxes other than income taxes	47,559	41,607
Gain from property sales	(4,970)	(3,300)
	2,003,253	1,762,283
EARNINGS BEFORE INCOME TAXES	166,023	136,261
INCOME TAXES (Note F)		
Current	76,665	62,568
Deferred	8,457	8,030
	85,122	70,598
NET EARNINGS	$ 80,901	$ 65,663
NET EARNINGS PER SHARE	$ 5.05	$ 4.11

Statements of Financial Position

Dayton Hudson Corporation and Subsidiaries

RETAIL

(Thousands of Dollars)

ASSETS	1977 January 28, 1978	1976 January 29, 1977
CURRENT ASSETS		
Cash and short-term investments	$ 50,766	$ 70,493
Accounts receivable (Note N)		
Thirty day accounts	2,584	2,465
Deferred payment accounts	333,298	276,540
Other accounts	11,342	9,185
Less allowance for losses	(10,787)	(8,325)
	336,437	279,865
Merchandise inventories (Note A)	281,128	237,722
Supplies and prepaid expenses	6,926	5,636
TOTAL CURRENT ASSETS	675,257	593,716
INVESTMENTS AND OTHER ASSETS	6,088	7,080
PROPERTY AND EQUIPMENT (Note B)		
Land	59,773	48,058
Buildings and improvements	343,459	311,122
Fixtures and equipment	137,682	120,837
Construction in progress	31,141	19,775
Accumulated depreciation	(200,367)	(189,092)
	371,688	310,700
	$ 1,053,033	$ 911,496

LIABILITIES	1977	1976
CURRENT LIABILITIES		
Accounts payable	$ 217,353	$172,432
Taxes other than income taxes	28,944	23,955
Accrued liabilities	67,622	57,513
Income taxes, currently payable	38,044	34,523
Intercompany accounts	20,741	12,519
Deferred income taxes — installment sales (Note F)	55,436	45,298
Current portion of long-term debt	6,094	7,409
TOTAL CURRENT LIABILITIES	434,234	353,649
LONG-TERM DEBT (Note B)	116,782	111,681
DEFERRED CREDITS — principally income taxes (Note F)	11,867	12,503
SHAREHOLDERS' INVESTMENT (Notes B and E)	490,150	433,663
	$ 1,053,033	$ 911,496

See accompanying Summary of Accounting Policies and Notes to Financial Statements.

REAL ESTATE

(Thousands of Dollars)

ASSETS

CURRENT ASSETS

- Cash
- Accounts receivable
- Less allowance for losses
- Supplies and prepaid expenses
- TOTAL CURRENT ASSETS

INVESTMENTS AND OTHER ASSETS (Note G)

PROPERTY AND EQUIPMENT (Note B)

- Land
- Buildings and improvements
- Fixtures and equipment
- Construction in progress
- Accumulated depreciation

LIABILITIES

CURRENT LIABILITIES

- Accounts payable
- Taxes other than income taxes
- Accrued liabilities
- Income taxes, currently payable
- Intercompany accounts
- Current portion of long-term debt
- TOTAL CURRENT LIABILITIES

LONG-TERM DEBT (Note B)

DEFERRED CREDITS — (Notes D and F)

SHAREHOLDERS' INVESTMENT (Notes B and E

	1977	1976
	January 28, 1978	January 29, 1977
	$ 3	$ 3
	15,507	10,124
	(336)	(215)
	15,171	9,909
	289	137
	15,463	10,049
	10,450	8,416
	25,281	30,638
	151,773	148,042
	2,501	2,400
	24,521	7,211
	(64,509)	(59,976)
	139,567	128,315
	$165,480	$146,780

	1977	1976
	$ 8,586	$ 2,375
	10,443	8,183
	2,741	3,431
	5,042	2,438
	(20,741)	(12,519)
	2,662	3,411
	8,733	7,319
	127,299	114,648
	9,174	10,765
	20,274	14,048
	$165,480	$146,780

CONSOLIDATED

(Thousands of Dollars)

ASSETS	1977 January 28, 1978	1976 January 29, 1977
CURRENT ASSETS		
Cash and short-term investments	$ 50,769	$ 70,496
Accounts receivable (Note N)		
Thirty day accounts	2,584	2,465
Deferred payment accounts	333,298	276,540
Other accounts	26,849	19 309
Less allowance for losses	(11,123)	(8,540)
	351,608	289,774
Merchandise inventories (Note A)	281,128	237,722
Supplies and prepaid expenses	7,215	5,773
TOTAL CURRENT ASSETS	690,720	603,765
INVESTMENTS AND OTHER ASSETS (Note G)	16,538	15,496
PROPERTY AND EQUIPMENT (Note B)		
Land	85,054	78,696
Buildings and improvements	495,232	459,164
Fixtures and equipment	140,183	123,237
Construction in progress	55,662	26,986
Accumulated depreciation	(264,876)	(249,068)
	511,255	439,015
	$1,218,513	$1,058,276

LIABILITIES	1977	1976
CURRENT LIABILITIES		
Accounts payable	$ 225,939	$ 174,807
Taxes other than income taxes	39,387	32,138
Accrued liabilities	70,363	60,944
Income taxes, currently payable	43,086	36,961
Deferred income taxes — installment sales (Note F)	55,436	45,298
Current portion of long-term debt	8,756	10,820
TOTAL CURRENT LIABILITIES	442,967	360,968
LONG-TERM DEBT (Note B)	244,081	226,329
DEFERRED CREDITS —		
principally income taxes (Notes D and F)	21,041	23,268
SHAREHOLDERS' INVESTMENT (Notes B and E)	510,424	447,711
	$1,218,513	$1,058,276

Statements of Changes in Financial Position

Dayton Hudson Corporation and Subsidiaries

RETAIL

(Thousands of Dollars)

	1977	1976
FUNDS PROVIDED BY		
Operations:		
Net earnings	$ 74,675	$ 63,203
Items not affecting working capital:		
Depreciation and amortization	30,118	26,122
Increase (decrease) in non-current deferred income taxes	(530)	1,056
Other items	72	49
Funds provided by operations	104,335	90,430
Increase in long-term debt	15,032	357
Disposals of property and equipment	1,286	2,371
Proceeds from exercise of stock options	2.030	1,209
	$122,683	$ 94,367
FUNDS USED FOR		
Additions to property and equipment	$ 92,392	$ 62,715
Prepayments on long-term debt	3,837	5,916
Scheduled reductions of long-term debt	6,094	6,583
Cash dividends	20,218	15,557
Other, net	(814)	3,209
Increase in working capital	956	387
	$122,683	$ 94,367
INCREASES (DECREASES) IN COMPONENTS OF WORKING CAPITAL		
Cash and short-term investments	$ (19,727)	$ 16,019
Accounts receivable	56,572	36,757
Merchandise inventories	43,406	20,693
Supplies and prepaid expenses	1,290	(1,293)
Increase in current assets	81,541	72,176
Accounts payable	44,921	38,579
Accrued expenses and other	25,236	16,246
Income taxes, currently payable	3,521	(4,032)
Current portion of long-term debt	(1,315)	(227)
Intercompany accounts	8,222	21,223
Increase in current liabilities	80,585	71,789
Net increase	$ 956	$ 387

See accompanying Summary of Accounting Policies and Notes to Financial Statements

REAL ESTATE

(Thousands of Dollars)

FUNDS PROVIDED BY
Operations:
Net earnings
Items not affecting working capital:
Depreciation and amortization
Equity in loss of joint ventures
Decrease in non-current deferred income taxes
Other items
Funds provided by operations
Principal payments on long-term debt
Funds after debt service
Other sources:
Increase in long-term debt
Disposals of property and equipment
Increase (decrease) in deferred income
(Increase) decrease in long-term receivables
FUNDS USED FOR
Additions to property and equipment
Mortgages assumed by purchasers of office properties and prepayments on land contracts
Investments in and advances to joint ventures
Increase in other working capital items, net
Other, net

	1977	1976
	$ 6,226	$ 2,460
	5,717	6,481
	1,040	2,929
	(1,087)	(1,121)
	74	77
	11,970	10,826
	(3,539)	(4,141)
	8,431	6,685
	17,105	16,398
	10,041	19,730
	(504)	4,460
	(1,857)	462
	$33,216	$47,735
	$27,010	$16,768
	1,664	17,909
	(417)	3,543
	2,837	9,271
	2,122	244
	$33,216	$47,735

CONSOLIDATED

(Thousands of Dollars)

	1977	1976
FUNDS PROVIDED BY		
Operations:		
Net earnings	$ 80,901	$ 65,663
Items not affecting working capital:		
Depreciation and amortization	35,835	32,603
Equity in loss of joint ventures	1,040	2,929
Decrease in non-current deferred income taxes	(1,617)	(65)
Other items	146	126
Funds provided by operations	116,305	101,256
Increase in long-term debt	32,137	16,755
Disposals of property and equipment	11,327	22,101
Increase (decrease) in deferred income	(504)	4,460
Proceeds from exercise of stock options	2,030	1,209
	$161,295	$145,781
FUNDS USED FOR		
Additions to property and equipment	$119,402	$ 79,483
Mortgages assumed by purchasers of office properties and prepayments on long-term debt	5,501	23,825
Scheduled reductions of long-term debt	8.884	7,812
Cash dividends	20,218	15,557
Investments and advances to joint ventures	(417)	3,543
Other, net	2,751	2,475
Increase in working capital	4,956	13,086
	$161,295	$145,781
INCREASES (DECREASES) IN COMPONENTS OF WORKING CAPITAL		
Cash and short-term investments	$ (19,727)	$ 15,970
Accounts receivable	61,834	29,896
Merchandise inventories	43,406	20,693
Supplies and prepaid expenses	1,442	(1,260)
Increase in current assets	86,955	65,299
Accounts payable	51,132	38,885
Accrued expenses and other	26,806	17,284
Income taxes, currently payable	6,125	(817)
Current portion of long-term debt	(2,064)	(3,139)
Increase in current liabilities	81,999	52,213
Net increase	$ 4,956	$ 13,086

Summary of Accounting Policies
Dayton Hudson Corporation and Subsidiaries

Dayton Hudson Corporation uses the accrual basis of accounting, following generally conservative accounting policies. The following is a description of those policies.

Consolidation. The financial statements include the accounts of Dayton Hudson Corporation and subsidiaries, all of which are wholly owned.

Joint Venture Investments. The Corporation accounts for its investments in joint ventures using the equity method, on a one-month lag basis. All the joint ventures of the Real Estate subsidiaries have adopted a calendar year as their fiscal year. See Note G for condensed financial statements of the combined joint ventures.

Financial Data by Line of Business. Dayton Hudson Corporation operates its Retail business through department, low margin and specialty stores. Through its Real Estate business, it owns, develops and manages regional shopping centers and other commercial properties.

Separate financial statements have been presented for the Retail and Real Estate activities in addition to the Consolidated financial statements in order to describe more clearly the separate effects of the Retail and Real Estate activities on the Corporation's results of operations, flow of funds and financial position. It is not always possible to total individual captions on the Retail and Real Estate financial statements to agree with Consolidated captions because informative reporting requirements differ widely between Retail and Real Estate. The following allocation methods have been employed to prepare the separate financial statements since legal entities are not exclusively Retail or Real Estate.

Assets, liabilities, revenues and expenses specifically identifiable as either Retail or Real Estate have been so designated, with those not specifically identifiable allocated as follows:

1. Shopping center property, including related depreciation, owned by Real Estate and utilized by the Corporation's department stores, is allocated to the applicable Retail stores on the basis of the percentage of gross area occupied by the stores. The common mall areas, heating, ventilating and air conditioning facilities of the shopping centers are considered Real Estate properties. Parking lot area is allocated on the basis of leasable space in the center, a practice consistent with industry standards.

2. Secured debt and the related interest expense are allocated on the same basis as the property pledged as collateral to the debt. Unsecured long-term debt has been assigned to Retail.

3. Property taxes are allocated on the basis of gross leasable area, in general accordance with terms of leases with shopping center tenants.

4. Separate income tax provisions are computed for each line of business. Tax benefits and items that require specific treatment in the Consolidated Federal income tax return are assigned to the originating line of business. Deferred income taxes have been assigned to the Real Estate or Retail line of business based on the assets or liabilities associated with those deferred taxes.

5. Corporate Office expenses are allocated based on assets, sales and payroll dollars.

See Pages 32-33 of the Annual Report for detailed segment of business information on the department store, low-margin store, specialty store and Real Estate segments which is herein incorporated by reference.

Property and Equipment. Property and equipment is carried at cost less accumulated depreciation.

Depreciation is computed using the straight-line method for financial reporting purposes and accelerated methods for tax purposes.

The following estimated lives are used in computing depreciation:

Buildings and improvements	10 to 50 years
Fixtures and equipment	3 to 20 years
Leasehold improvements	Life of lease or useful life of asset
Tenant allowances	Life of lease

Real Estate capitalizes real property taxes and certain other costs, exclusive of interest, associated with the construction or development of a project. Retail expenses real property taxes and interest.

Costs capitalized by Real Estate are classified as construction in progress until the project becomes operational, at which time the accumulated project costs are transferred to operating property categories and depreciated over the appropriate life. Preliminary development expenses are charged to current operations until there is a commitment for construction of a project. Interest and real estate taxes related to undeveloped land are expensed as incurred.

Accounts Receivable and Allowance for Losses. The Corporation's policy is to write off Retail accounts receivable if any portion of the balance is more than 12 months past due, or when the scheduled payment has not been received for six consecutive months. The allowance for losses for uncollectible customer accounts receivable is based upon historical bad-debt experience and current agings of the accounts Certain accounts due beyond one year are classified as current in accordance with industry practice.

Property Sales. The Real Estate line of business follows the installment sales method for recording sales of property.

Employee Benefits. The Corporation and its subsidiaries have retirement plans covering substantially all employees. Pension costs are paid to the plans as accrued by the Corporation. Costs with respect to the plans are actuarially computed using the "aggregate cost method." Under this method, unfunded costs and actuarial gains and losses are spread over future periods. In addition, a Savings and Stock Purchase Plan is made available to substantially all employees who meet the eligibility requirements (primarily based on age and length of service). Employees can contribute up to a maximum of 10% of their current cash compensation to the plan. Under this plan the Corporation contributes 50 cents for each dollar deposited by the employee up to a maximum of 2½% of the participant's current cash compensation. Employees become partially vested after participating in the plan for two years. The employee is fully vested after six years.

Other Costs. Expenses incurred in connection with obtaining long-term financing are amortized over the term of the related debt

Costs incurred as lessor in acquiring new tenants of leased facilities are capitalized and amortized over the term of the lease.

Expenses associated with the opening of new stores are charged against income in the year they are incurred.

Inventories. Inventories and related cost of sales are accounted for principally by the retail inventory method using the last-in, first-out (LIFO) basis.

Accounts Payable. Drafts outstanding of $67,377,000 at January 28, 1978, and $33,860,000 at January 29, 1977, are classified as accounts payable.

Income Taxes. Gross profit on Retail installment sales is recognized for financial reporting purposes when the sales are recorded For income tax purposes the installment method of reporting profit on installment sales is used.

Deferred income taxes arising from Retail installment sales are included in the Statement of Financial Position as a current liability. All other deferred income taxes are included in "Deferred Credits" in the Statement of Financial Position.

The Corporation and its subsidiaries file a consolidated Federal income tax return.

The income tax provision includes Federal and state income taxes computed at ordinary and capital gains rates where applicable. Investment credit has been used to reduce income taxes in the year the property was placed in service.

Per Share Data. Net earnings per share, Consolidated and Retail, have been computed after provision for dividends on preferred stock, based upon the weighted average number of common shares outstanding during the year (15,951,000 in 1977 and 15,890,000 in 1976) Per share amounts for Real Estate have been computed based on net earnings of Real Estate operations.

Fiscal Year. The Corporation's fiscal year ends on the Saturday closest to January 31 Fiscal year 1977 ended on January 28, 1978; fiscal year 1976 ended on January 29, 1977. Each of these years consisted of 52 weeks

Reclassification of Accounts. Certain account balances of prior years have been reclassified to conform with classifications in 1977 None of these reclassifications had an effect on net earnings.

A. INVENTORIES

(Thousands of Dollars)

Inventories are accounted for principally by the retail inventory method using the last-in, first-out (LIFO) method.

Merchandise inventories detailed by types of stores are as follows:

	Department Stores	Low-Margin Stores	Specialty Stores	Total
January 28, 1978	$118,820	$107,476	$54,832	$281,128
January 29, 1977	$106,006	$ 92,534	$39,182	$237,722

If the inventories had been valued by use of the first-in, first-out (FIFO) retail method, they would have been higher as follows:

	Department Stores	Low-Margin Stores	Specialty Stores	Total
January 28, 1978	$ 31,297	$ 16,481	$ 9,857	$ 57,635
January 29, 1977	$ 28,616	$ 13,504	$ 8,629	$ 50,749

B. LONG-TERM DEBT

A summary of long-term debt due beyond one year is as follows:

	January 28, 1978			January 29, 1977		
(Thousands of Dollars)	Retail	Real Estate	Consolidated	Retail	Real Estate	Consolidated
Bank Term Loan ..	$ 12,500	$	$ 12,500	$ 15,625	$	$ 15,625
Sinking Fund Debentures	38,454		38,454	42,270		42,270
Sinking Fund Notes	19,000		19,000	4,800		4,800
Other unsecured notes — maturing at various dates to 1985 and bearing interest from 6% to 7½%	3,018		3,018	3,158		3,158
Mortgage Notes, notes and contracts for purchase of real estate — payable over periods ranging to 30 years from inception and bearing interest from 5% to 9½%	43,810	127,299	171,109	45,828	114,648	160,476
	$116,782	$127,299	$244,081	$111,681	$114,648	$226,329

The Bank Term Loan bears interest at a variable rate not to exceed an average of 7⅝% over the term of the Agreement. The balance is payable in equal quarterly installments with final maturity on January 3, 1983. The Corporation is not required to maintain compensating balances.

The Sinking Fund Debentures bear interest at 7¾% ($19,934,000) and 9¾% ($18,520,000) and are redeemable through minimum annual sinking fund payments of $1.25 million each.

The 5⅜% Sinking Fund Notes ($4,000,000) are payable $800,000 annually to 1982. The 8⅜% Sinking Fund Notes ($15,000,000) are part of a private placement agreement to borrow $50 million, the remaining $35 million to be borrowed by November 15, 1979. Sinking fund payments begin in 1983 with final maturity in 1999.

The 7¾% and 9¾% Sinking Fund Debentures, the Bank Term Loan, and the 5⅜% and 8⅜% Sinking Fund Notes each contain varying provisions and restrictions for the protection of the lenders relating to working capital, sale of receivables, dividends and other restricted payments, and other restrictive covenants Under the most restrictive of these provisions, $95 million of retained earnings at January 28, 1978, was available for dividends and other restricted payments.

The carrying value of land, buildings and equipment pledged as collateral to mortgage notes and contracts aggregated approximately $151 million at January 28, 1978.

Aggregate annual principal payments of long-term debt for the next five years are as follows (in thousands): 1978 — $8,756; 1979—$11,749; 1980—$12,080; 1981—$13,813; and 1982—$12,634.

Interest income of $1,363,000 and $373,000 earned on funds advanced by Real Estate to Retail is included in interest expense in Retail and Real Estate results of operations in 1977 and 1976.

C. LINES OF CREDIT

The Corporation had $71.5 million in unsecured lines of credit with 14 banks at January 28, 1978. Borrowings under the lines of credit are at the prime interest rate. As compensation for the line of credit arrangements, the Corporation was expected to and did maintain average net collected compensating balances (ledger balances less float, as computed by the banks) of approximately $5.4 million. These balances were at all times legally subject to withdrawal with no restrictions, and served as part of the Corporation's operating cash balance. There were no borrowings under the lines of credit during 1977. The Corporation's only short-term borrowing in 1977 was an average of $12.9 million of commercial paper for 54 days at an average interest rate of 6.6%. The Corporation's only short-term borrowing in 1976 was $7 million of commercial paper for five days in the fourth quarter at an interest rate of 4⅞%.

D. DEFERRED CREDITS

Deferred income from sales of Real Estate properties of approximately $4.6 and $5.1 million has been included in Consolidated and Real Estate deferred credits at January 28, 1978, and January 29, 1977.

E. SHAREHOLDERS' INVESTMENT

(Thousands of Dollars)

	Line of Business		Consolidated				
	Retail	Real Estate	Total	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings
Balance at January 31, 1976	$384,808	$11,588	$396,396	$597	$15,859	$39,100	$340,840
Net earnings	63,203	2,460	65,663				65,663
Cash Dividends:							
Common Stock ($.96 a share)	(15,252)		(15,252)				(15,252)
Preferred Stock	(305)		(305)				(305)
Conversions of Preferred Stock				(55)	15	40	
Stock Options	1,209		1,209		43	1,166	
Balance January 29, 1977	433,663	14,048	447,711	542	15,917	40,306	390,946
Net earnings	74,675	6,226	80,901				80,901
Cash Dividends:							
Common Stock ($1.25 a share)	(19,925)		(19,925)				(19,925)
Preferred Stock	(293)		(293)				(293)
Conversions of Preferred Stock				(20)	5	15	
Stock Options	2,030		2,030		72	1,958	
Balance January 28, 1978	$490,150	$20,274	$510,424	$522	$15,994	$42,279	$451,629

Preferred Stock — Authorized 200,000 shares, voting, without par value, issuable in series; outstanding at January 28, 1978, and January 29, 1977, 25,675 and 27,175 shares, respectively, of $5 Cumulative Convertible Preferred Stock and 26,500 and 27,000 shares, respectively, of $6 Cumulative Convertible Preferred Stock. Both issues have a liquidation value of $100 per share and are convertible into Common Stock at 2⅔ shares for each share of Preferred Stock.

Common Stock — Authorized 20,000,000 shares, par value $1 a share; 16,082,452 and 16,081,118 shares issued less 88,373 and 164,576 shares in Treasury at January 28, 1978, and January 29, 1977, respectively.

F. INCOME TAX EXPENSE

(Thousands of Dollars)

The components of the provision for income taxes are as follows:

	1977			1976		
	Total	Federal	State	Total	Federal	State
Retail:						
Current	$69,377	$57,843	$11,534	$59,317	$49,731	$ 9,586
Deferred	9,544	8,880	664	9,151	8,444	707
Total	$78,921	$66,723	$12,198	$68,468	$58,175	$10,293
Real Estate:						
Current	$ 7,288	$ 6,122	$ 1,166	$ 3,251	$ 2,605	$ 646
Deferred	(1,087)	(844)	(243)	(1,121)	(1,000)	(121)
Total	$ 6,201	$ 5,278	$ 923	$ 2,130	$ 1,605	$ 525
Consolidated:						
Current	$76,665	$63,965	$12,700	$62,568	$52,336	$10,232
Deferred	8,457	8,036	421	8,030	7,444	586
Total	$85,122	$72,001	$13,121	$70,598	$59,780	$10,818

Deferred income taxes are provided for income and expenses which are recognized in different accounting periods for financial reporting than for income tax purposes. The timing differences and the related deferred taxes are as follows:

	1977			1976		
	Retail	Real Estate	Consolidated	Retail	Real Estate	Consolidated
Excess of tax over book depreciation	$ 140	$(1,215)	$(1,075)	$ 649	$ (292)	$ 357
Deferred income on installment sales	10,138	(878)	9,260	8,095	(76)	8,019
Other	(734)	1,006	272	407	(753)	(346)
Total	$ 9,544	$(1,087)	$ 8,457	$9,151	$(1,121)	$8,030

Based on the Corporation's anticipated future operations and expenditures and current income tax policies, no substantial reduction in the deferred income tax balance is anticipated in the succeeding three years.

G. INVESTMENT IN JOINT VENTURES

The Real Estate line of business had partnership interests ranging from 25% to 75% in 15 joint ventures at January 28, 1978. The major commitment to these joint ventures involves eight regional shopping centers — three in operation and five under development — as discussed in the Operating Review on Page 10. Condensed combined financial statements of the joint ventures follow (in thousands).

CONDENSED COMBINED RESULTS OF OPERATIONS YEARS ENDED DECEMBER 31

	1977	1976
Operating Properties		
Rental revenue	$ 16,440	$ 9,546
Operating expenses	7,418	4,308
	9,022	5,238
Other (Income) Expense		
Interest expense (excluding interest capitalized of $484 in 1977 and $911 in 1976)	10,104	7,586
Depreciation and amortization	3,537	2,711
Development expense	961	967
Gain from property sales	(2,812)	(376)
Other, net	453	688
	12,243	11,576
EARNINGS (LOSS)	$ (3,221)	$ (6,338)

RECONCILIATION OF DAYTON HUDSON REAL ESTATE'S SHARE OF EARNINGS (LOSS) OF JOINT VENTURES

	1977	1976
Dayton Hudson Real Estate's share of loss (Note 2)	$ (1,025)	$ (2,693)
Interest capitalized by joint venture	(161)	(303)
Other adjustments	146	67
Equity in loss as reflected in accompanying Real Estate and Consolidated results of operations	$ (1,040)	$ (2,929)

CONDENSED COMBINED STATEMENT OF FINANCIAL POSITION

	December 31 1977	1976
ASSETS		
Cash, receivables and other assets	$ 14,933	$ 10,047
Shopping centers and commercial property	99,751	67,999
Shopping centers under construction	6,923	20,868
Undeveloped land	30,831	34,096
	152,438	133,010
Less: Accumulated depreciation	(14,950)	(11,496)
	$137,488	$121,514
LIABILITIES		
Accounts payable and accrued expenses	$ 14,284	$ 15,713
Payable to Dayton Hudson Real Estate	6,746	4,601
Long-term debt (Note 1)	121,099	99,144
Deferred gain on land sales	534	—
	142,663	119,458
PARTNERS' EQUITY		
Dayton Hudson Real Estate	(745)	1,049
Other partners	(4,430)	1,007
	(5,175)	2,056
	$137,488	$121,514

RECONCILIATION OF DAYTON HUDSON REAL ESTATE'S INVESTMENT IN AND ADVANCES TO JOINT VENTURES

	1977	1976
As shown above	$ (745)	$ 1,049
Advances to joint ventures	1,851	1,851
Cumulative effect of adjusting to Dayton Hudson Real Estate's accounting policies	61	57
Difference in basis of contributed property	(1,538)	(1,872)
As reflected in accompanying Real Estate and Consolidated statements of financial position	$ (371)	$ 1,085

(1) In certain situations, because of competitive market conditions and for favorable financial arrangements, the Dayton Hudson Real Estate subsidiaries have guaranteed repayment of joint venture debt until certain conditions have been met. Real Estate subsidiaries were contingently liable for $13.8 million and $16.6 million of joint venture debt at December 31, 1977, and 1976, respectively.

(2) The tax benefit resulting from Dayton Hudson Real Estate's share of the loss is reflected in the provision for income taxes in

the accompanying Real Estate and Consolidated financial statements.

H. PENSION AND SAVINGS AND STOCK PURCHASE PLANS

Contributions to the Corporation's pension plans for fiscal 1977 and 1976 were $8.7 million and $8.0 million, respectively. The plans' combined assets and liabilities are as follows:

(Thousands of Dollars)	December 31 1977	1976
ASSETS		
Insurance contracts	$11,378	$11,368
Fixed income securities	29,468	25,963
Equity securities	40,275	38,982
Total Assets at Cost (market value: 1977 — $81,985, 1976 — $81,620)	$81,121	$76,313
LIABILITIES		
Vested benefits	$94,819	$88,443
Accrued benefits, not vested	2,417	3,420
Unfunded liability	(16,115)	(15,550)
Total Liabilities	$81,121	$76,313

Contributions to the Savings and Stock Purchase Plan by the Corporation were $2.4 million in 1977 and $2.2 million in 1976. The condensed balance sheet of the Plan is as follows:

(Thousands of Dollars)	December 31 1977	1976
ASSETS		
Investments, at market value:		
Dayton Hudson Stock Fund	$13,157	$12,263
Fixed Income Fund	11,427	8,294
Equity Fund	23,751	23,607
Total Assets	$48,335	$44,164
LIABILITIES		
Funds payable for securities and plan withdrawals	$ 893	$ 738
Plan equity	47,442	43,426
Total Liabilities	$48,335	$44,164

I. STOCK OPTION PLANS

The Corporation has two stock option plans for key employees. No new options will be granted under the 1972 Employee Stock Option Plan as amended. Under the 1972 Plan certain eligible employees were granted qualified or non-qualified stock options, or both, at 100% of market at date of grant. Non-qualified stock options have been granted at 100% of market at date of grant to certain key employees under the Executive Long-Term Incentive Plan adopted in 1976. The options that have been issued under these plans are exercisable in cumulative annual installments of 25% of the optioned shares after the first year with the qualified options expiring in five years and the non-qualified options expiring in ten years.

The 1972 Plan also granted stock appreciation rights to option holders, permitting them to surrender exercisable non-qualified options in exchange for shares of the Corporation's stock having an aggregate value, at the date of surrender, equal to the difference between the option price and the market value of the shares covered by the surrendered options. Compensation expense is accrued in anticipation of settlement of these rights over the period they become exercisable. At January 28, 1978, outstanding options for 165,954 shares had stock appreciation rights attached. (Income) expense of $(0.4) million and $0.9 million was (credited) charged to operations in 1977 and 1976 respectively. Because of a possible adverse impact on earnings resulting from the exercise of stock appreciation rights, the Corporation is encouraging option holders to exercise options rather than the related stock appreciation rights.

The 1976 Plan also provides for the granting of performance shares to certain key employees. All or a portion of the shares may be earned at the end of a four-year period beginning with the fiscal year in which the shares were granted. The number of shares earned is dependent upon the relative level of achievement of certain goals, established at the beginning of the four year performance period. Compensation expense of $0.3 million and $0.1 million was accrued in 1977 and 1976 in expectation that 15,900 and 17,700 performance shares granted in 1977 and 1976, respectively, will be earned under the 1976 Plan. Under the Plan, 500,000 shares were originally reserved for issuance. Shares available for grant at January 28, 1978, and January 29, 1977, were 309,325 and 394,625, respectively.

Shares under option were as follows:

	1977 Number Of Shares	1977 Price Per Share	1976 Number Of Shares	1976 Price Per Share
Outstanding — beginning of year	341,042	$ 7.94 to $28.50	333,191	$7.94 to $37.19
Granted	84,200	$34.81 to $41.75	91,100	$28.50
Cancelled	23,076	$ 7.94 to $34.81	26,776	$7.94 to $37.19
Exercised	80,189	$ 7.94 to $28.50	56,473	$7.94 to $33.13
Outstanding— end of year	321,977	$ 7.94 to $41.75	341,042	$7.94 to $28.50
Number of shares exercisable	108,153	$ 7.94 to $28.50	108,241	$7.94 to $26.82

J. GENERAL DESCRIPTION OF THE IMPACT OF INFLATION (UNAUDITED)

Inflation has been and will continue to be a factor affecting management's decisions. Although inflation has caused upward pressures on expenses and cost of sales, management has generally been able to offset such increases through operating efficiencies and higher selling prices.

Under the last-in, first-out (LIFO) inventory method followed by the Corporation the impact of inflation on cost of sales is effectively charged against current year net income.

While the cumulative impact of inflation over a number of years has resulted in higher estimated costs for the replacement of existing property and equipment, these increases have been partially offset by changes in design and construction of stores, improvements in fixturing, and technological advances in equipment which often increase productivity. Although management believes the replacement of existing assets with newer more efficient assets would reduce operating expenses, the savings cannot be quantified.

The Corporation's annual report Form 10-K (a copy of which is available upon request) contains quantitative information with respect to estimated replacement cost of inventories and property and equipment at January 28, 1978, and January 29, 1977, and the estimated effect of such costs on cost of sales and depreciation expense for the years then ended.

K. LEASES

Rental expense on long-term noncancelable leases included in the results of operations is as follows:

(Thousands of Dollars)	1977	1976
Minimum rentals	$20,542	$18,983
Contingent rentals	3,770	2,709
Less. Sublease rentals	(1,118)	(1,109)
	$23,194	$20,583

Contingent rentals are based upon a percentage of sales. Most leases require additional payments for real estate taxes, insurance, and other expenses which are included in occupancy costs and taxes other than income taxes in the accompanying results of operations.

The following is a schedule by years of future minimum rental payments required under leases having initial or remaining noncancelable lease terms in excess of one year as of January 28, 1978:

(Thousands of Dollars)	Total	Real Property	Equipment
1978	$20,968	$18,590	$2,378
1979	20,120	18,655	1,465
1980	19,515	18,360	1,155
1981	19,240	18,171	1,069
1982	18,009	17,451	558
1983 - 1987	71,054	70,880	174
1988 - 1992	37,294	37,294	
1993 - 1997	19,875	19,875	
After 1997	16,760	16,760	

The above minimum rentals reflect the Corporation's gross lease obligations reduced by sublease income from real property annually averaging (in thousands) $608 for 1978-1982 and aggregating $1,129 for 1983-1987; $179 for 1988-1992; and $20 for 1993-1997. Substantially all leases are for property used by the Retail companies.

Capital leases as defined in accordance with Financial Accounting Standard No. 13 had net book values of $37,732,000 and $38,237,000 at January 28, 1978, and January 29, 1977, respectively. The present values of the obligations related to capital leases would be $44,477,000 and $44,247,000, respectively.

Included in the amounts at January 28, 1978 are leases entered into after December 31, 1976, having a net book value of $1,963,000 and present value of obligations totaling $1,987,000.

If capital leases had been capitalized and reflected in the financial statements, net earnings would have been reduced $354,000 ($.02 per share) in 1977 and $249,000 ($.02 per share) in 1976.

L. COMMITMENTS AND CONTINGENCIES

Commitments for construction of new facilities and the purchase of real estate amounted to approximately $36.2 million at January 28, 1978.

A Real Estate subsidiary is contingently liable for $10,228,000 of mortgage debt on certain office properties sold in 1976. The purchaser has agreed to indemnify the subsidiary for any costs it may incur in relation to the mortgages.

See Note G for a discussion of the commitments related to the Corporation's joint ventures.

During 1977, $2.9 million of income tax was paid in settlement of the Internal Revenue Service's audit of the Corporation's 1970 and 1971 income tax returns. The major portion of the settlement related to lengthening real property depreciable lives. The settlement had no material impact on earnings.

The Corporation's 1972 and 1973 Federal income tax returns are currently under examination. No adjustments are anticipated which will have a material impact on earnings.

The nature and scope of the Corporation's business brings its properties, operations and representatives into regular contact with the general public and a variety of other business and governmental entities, all of which inherently subject the Corporation to hazards of litigation in the ordinary course of business. Giving effect to the insurance in place with respect to a portion of that litigation, and noting that the ultimate consequences of any particular litigation may not be presently conclusively determinable, it is the opinion of the management of the Corporation and of its legal counsel that none of the current litigation involving the Corporation or any of its subsidiaries or divisions will have a material effect on the operations or financial condition of the Corporation.

M. QUARTERLY REVIEW (UNAUDITED)

The following is a summary of unaudited quarterly results of operations for the two years ended January 28, 1978, and January 29, 1977

(Millions of Dollars Except Per Share Data)

	Retail		Real Estate		Consolidated	
	1977	1976	1977	1976	1977	1976
Revenues						
First	$ 418.0	$ 377.2	$ 9.1	$ 9.3	$ 427.1	$ 386.5
Second	469.0	410.6	10.0	10.4	479.0	421.0
Third	519.7	447.6	10.0	10.9	529.7	458.5
Fourth	719.0	622.4	14.5	10.1	733.5	632.5
Total Year	$2,125.7	$1,857.8	$43.6	$40.7	$2,169.3	$1,898.5
Gross Profit (1)						
First	$ 121.4	$ 110.4	$ 5.2	$ 5.4	$ 128.5	$ 117.9
Second	133.3	116.1	5.5	5.6	140.1	123.9
Third	155.6	139.6	6.0	5.9	164.4	147.9
Fourth	222.8	187.8	8.0	5.2	233.0	195.0
Total Year	$ 633.1	$ 553.9	$24.7	$22.1	$ 666.0	$ 584.7
Net Earnings						
First	$ 7.8	$ 6.5	$ .3	$ .1	$ 8.1	$ 6.6
Second	9.7	8.3	1.7	—	11.4	8.3
Third	17.7	14.9	.7	.2	18.4	15.1
Fourth	39.5	33.5	3.5	2.2	43.0	35.7
Total Year	$ 74.7	$ 63.2	$ 6.2	$ 2.5	$ 80.9	$ 65.7
Earnings Per Share						
First	$ .48	$ .40	$ .02	$ .01	$ .50	$ .41
Second	.61	.52	.11	—	.72	.52
Third	1.11	.94	.04	.01	1.15	.95
Fourth	2.46	2.10	.22	.13	2.68	2.23
Total Year	$ 4.66	$ 3.96	$ .39	$ .15	$ 5.05	$ 4.11

(1) Consolidated and Retail — revenues less cost of sales, buying and occupancy. Real Estate — income from operating properties.

It is not always possible to total individual captions for Retail and Real Estate to agree with Consolidated captions because informative reporting requirements differ widely between Retail and Real Estate.

N. CREDIT SALES AND ACCOUNTS RECEIVABLE

Credit sales were $858.5 million and $742.1 million for 1977 and 1976, respectively. Thirty-day, revolving installment and revolving charge sales were approximately 85% of total credit sales in both years. Bank card sales make up the balance of credit sales. The provision for bad debts on credit sales for 1977 and 1976 was $8.8 million and $7.1 million, respectively. Finance charge revenues of $32.5 million and $27.9 million for 1977 and 1976, respectively, are included in net retail sales.

O. ALTERNATIVE ACCOUNTING POLICY

The Real Estate line of business follows the practice of expensing interest incurred on construction in progress and all costs incurred on land held for future development (interest and real property taxes). Most comparable companies in the real estate industry follow a policy of capitalizing these costs. If Dayton Hudson followed this alternative accounting policy for its Real Estate line of business and joint ventures, approximately $2,032,000 in 1977 and $2,554,000 in 1976 of costs expensed would have been capitalized. This would have had the effect of increasing net earnings per share approximately $.06 in 1977 and $.09 in 1976.

P. SALE OF ASSETS

The Corporation reached an agreement in principle on October 12, 1977, for the sale of nine wholly owned regional shopping centers to The Equitable Life Assurance Society of the United States, and on March 24, 1978, executed a definitive agreement for the sale, subject to certain closing conditions. The agreement calls for a purchase price of $185 million in cash and the assumption of existing long-term debt totaling approximately $120 million. The agreement also provides for possible additional payments in 1979 and 1980 ranging up to approximately $50 million if the centers' performance exceeds certain predetermined standards. The Corporation anticipates an after tax gain of approximately $140 million when the sale is completed in fiscal 1978. The net cash proceeds from the sale, after related costs and income taxes, are expected to approximate $100 million. The carrying value of the centers was approximately $85 million at January 28, 1978. Net earnings from the centers included in the Real Estate results of operations for 1977 approximated $4.5 million.

Q. PROPOSED MERGER

In January 1978, the Corporation reached an agreement in principle to merge a wholly owned subsidiary of the Corporation with Mervyn's, a retail store chain headquartered in Hayward, California. The merger is subject to, among other things, the approval of shareholders of both companies and the obtaining of a ruling or opinion of counsel as to favorable tax treatment. The transaction is to be accounted for as a pooling of interests, and will involve the exchange of approximately 7,600,000 shares of Common Stock for all outstanding common shares of Mervyn's.

Report of Independent Auditors

Board of Directors and Shareholders
Dayton Hudson Corporation
Minneapolis, Minnesota

We have examined the statements of financial position of Dayton Hudson Corporation and subsidiaries and of their Retail and Real Estate Operations as of January 28, 1978 and January 29, 1977, and the related statements of results of operations, shareholders' investment and changes in financial position for the years then ended. We have also examined the Ten-Year Comparisons and the Segment Information included in the Five-Year Segment-of-Business Comparisons on pages 30-33. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Dayton Hudson Corporation and subsidiaries at January 28, 1978 and January 29, 1977, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. It is also our opinion that the financial statements referred to above of the Corporation's Retail and Real Estate Operations are presented fairly in conformity with the accounting practices described in the Summary of Accounting Policies set forth in the financial statements, applied on a consistent basis. Further, it is our opinion that the Ten-Year Comparisons and the Segment Information included in the Five-Year Segment-of-Business Comparisons fairly present the information set forth therein.

Minneapolis, Minnesota
March 17, 1978, except as to
Note P which is March 24, 1978

Ernst & Ernst

E&E

Ten-Year Comparisons

Dayton Hudson Corporation and Subsidiaries

The Ten-Year Comparisons should be read in *conjunction with the Financial Review and* Financial Statements.

(a) 1975 and prior years restated to exclude landholding revenues.

(b) Earnings data for 1972 include extraordinary expense of $0.7 million ($.04 per share).

(c) On a historical basis after giving retroactive effect to stock splits.

(d) Consisted of 53 weeks.

TOTAL REVENUES (Millions)[a]
Cost of retail sales, buying and occupancy
Interest expense
EARNINGS BEFORE INCOME TAXES (Millions)[b]
INCOME TAXES — Federal, state and local (Millions)
NET EARNINGS (Millions)[b]
DEPRECIATION AND AMORTIZATION (Millions)
RETURN ON BEGINNING SHAREHOLDERS' INVESTMENT
PER COMMON SHARE
— Net earnings[b]
— Cash dividend[c]
— Book value
CAPITAL EXPENDITURES (Millions)
YEAR END FINANCIAL POSITION (Millions)
Working capital
Property and equipment, net of depreciation:
Retail
Real Estate
Total
Long-term debt:
Retail
Real Estate
Total
Shareholders' Investment
AVERAGE COMMON SHARES OUTSTANDING (Thousands)

1977	1976	1975	1974	1973	1972(d)	1971	1970	1969	1968
$2,169.3	1,898.5	1,690.5	1,500.4	1,396 0	1,287.1	1,111.0	965.4	883.6	808.6
$1,503.3	1,313.8	1,166.4	1,066.2	985.8	917.5	784.8	684 6	621.2	569.0
$ 17.4	18.0	18.3	23.5	20.7	18 5	18 0	17 5	12.2	6.4
$ 166.0	136.3	107.0	50.1	53.3	53.9	45.7	37.6	48.1	51.0
$ 85.1	70.6	55.7	24.9	26.0	26 4	21.0	18.6	24.4	26.4
$ 80.9	65.7	51.3	25.2	27 3	27.5	24.7	19.0	23.7	24.6
$ 35.8	32.6	29.9	27.6	25 3	24.4	22.6	19.7	16.2	14.0
18.1%	16.6	14.4	7.4	8.4	9.2	8 6	7.0	9 3	10.3
$ 5.05	4.11	3.22	1.57	1.70	1.70	1.52	1.16	1.49	1.54
$ 1.25	.96	.66	.58½	.54	.52	.50	.50	.50	.40
$ 31.59	27.79	24.62	22.09	21.10	19 88	18.70	17.69	16 84	15.94
$ 119.4	79.5	39.8	59.5	55.8	36.9	33.3	56.8	92.8	52.9
$ 247.8	242.8	229.7	219 1	229.5	226.3	175.7	159.2	148.8	135.0
$ 371.7	310 7	276.5	271 6	259.0	248.5	243.8	234.7	206 7	159 5
$ 139 6	128 3	137.7	133.3	122.9	112 6	110.7	113.4	105.8	79.2
$ 511.3	439.0	414.2	404 9	381.9	361.1	354.5	348.1	312 5	238.7
$ 116 8	111.7	123.8	147.2	164.0	176.4	153 0	146 5	124.4	80.4
$ 127.3	114.6	117.4	116.6	104.8	82.6	74 2	76.1	69 3	38.4
$ 244.1	226.3	241.2	263.8	268.8	259.0	227.2	222.6	193 7	118.8
$ 510.4	447.7	396.4	356 1	340 5	324.7	305 8	289.6	269.7	255 8
15,951	15,890	15,850	15,850	15,890	16,017	16,017	16,020	15,814	15,850

Five-Year Segment-of-Business Comparisons

Dayton Hudson Corporation and Subsidiaries

RETAIL SEGMENT INFORMATION

(Millions of Dollars)	1977		1976		1975	
	Dollar Amount	Percent of Total	Dollar Amount	Percent of Total	Dollar Amount	Percent of Total
Revenues						
Department Stores	$1,053.3	49.6%	$ 952.3	51.3%	$ 888.7	53.7%
Low-Margin Stores	858.8	40.4	725.2	39.0	616.2	37.3
Specialty Stores	213.6	10.0	180 3	9.7	149.3	9.0
Total	$2,125.7	100.0%	$1,857.8	100.0%	$1,654.2	100.0%
Operating Profit (a)						
Department Stores	$ 103.0	58.7%	$ 93.3	61.0%	$ 82.2	62.9%
Low-Margin Stores	53.5	30.4	46.8	30.6	38.6	29.6
Specialty Stores	19.1	10.9	12.8	8.4	9.8	7.5
Total	175.6	100.0%	152.9	100.0%	130.6	100 0%
Corporate Expense	13.2		12.5		14.6	
Interest Expense	8.8		8.7		8.8	
Earnings Before Income Taxes	153.6		131.7		107.2	
Income Taxes	78.9		68.5		55.8	
Net Earnings	$ 74.7		$ 63.2		$ 51.4	
Identifiable Assets at Year-End						
Department Stores	$ 611.3		$ 527.3		$ 474.8	
Low-Margin Stores	305.0		243.2		211.0	
Specialty Stores	85.1		70.8		62.0	
Corporate Office	51.6		70.2		54 0	
Total	$1,053.0		$ 911.5		$ 801.8	
Depreciation and Amortization Expense						
Department Stores	$ 18.4		$ 16.4		$ 15.0	
Low-Margin Stores	8.5		7.0		6.4	
Specialty Stores	2.9		2.5		2.1	
Corporate Office	.3		.2		.2	
Total	$ 30.1		$ 26.1		$ 23.7	
Capital Expenditures						
Department Stores	$ 43.4		$ 36.0		$ 19.2	
Low-Margin Stores	41.6		21.9		6.2	
Specialty Stores	5.1		4.8		4.7	
Corporate Office	2.3		—		1	
Total	$ 92.4		$ 62.7		$ 30.2	

OTHER INFORMATION	1977	1976	1975
Operating Profit as a Percent of Revenues			
Department Stores	9.8%	9.8%	9.2%
Low-Margin Stores	6.2	6.5	6.3
Specialty Stores	8.9	7.1	6.6
Number of Stores			
Department Stores	46	44	41
Low-Margin Stores	64	56	52
Specialty Stores	364	313	273
Retail Square Feet (Thousands)			
Department Stores	10,126	9,690	9,210
Low-Margin Stores	6,999	6,185	5,865
Specialty Stores	1,346	1,182	1,047
Start-up Costs (Expensed as Incurred) (Millions)			
Department Stores	$ 6.7	$ 6.7	$ 2.8
Low-Margin Stores	5.5	3.3	1.3
Specialty Stores	1.2	1.1	1.0
Total	$ 13.4	$ 11.1	$ 5.1

1974 Dollar Amount	1974 Percent of Total	1973 Dollar Amount	1973 Percent of Total
$ 823.3	55.9%	$ 793.5	57.9%
524.6	35.6	470.3	34.4
124.3	8.5	105 7	7.7
$1,472.2	100.0%	$1,369.5	100.0%
$ 51.5	72.0%	$ 55.0	77.5%
17.2	24.1	13.0	18.3
2.8	3.9	3.0	4.2
71.5	100.0%	71 0	100.0%
6.1		7.4	
14.3		13 4	
51.1		50.2	
25.5		25 0	
$ 25.6		$ 25.2	
$ 436.2		$ 433.0	
192.8		197.9	
53.3		46 2	
17.1		14.8	
$ 699.4		$ 691.9	
$ 14.4		$ 13.1	
6 3		6.2	
1.7		1.3	
.2		.2	
$ 22.6		$ 20.8	
$ 27.0		$ 24.2	
4.9		4.5	
4.5		4.1	
.2		.5	
$ 36.6		$ 33.3	
6.3%		6 9%	
3.3		2.8	
2.3		2 8	
39		36	
50		50	
231		179	
9,027		8,656	
5,542		5,535	
968		734	
$ 6.1		$ 4 8	
.7		.9	
1.1		1 0	
$ 7 9		$ 6 7	

REAL ESTATE SEGMENT INFORMATION

(Millions of Dollars)	1977	1976	1975	1974	1973
Rental Revenue					
Total rental revenue	$ 52.7	$ 49.1	$ 43 9	$ 34.2	$ 31.9
Intersegment revenue (eliminated in consolidation)	9.1	8.3	7.6	6.0	5.4
Revenue from unaffiliated tenants	$ 43.6	$ 40.8	$ 36.3	$ 28 2	$ 26 5
Income from operating properties	$ 24.7	$ 22.1	$ 20 2	$ 14 3	$ 15 0
Other (Income) Expense					
Interest expense					
Operating	8.1	8.5	8.8	7.1	5.9
Development	.2	.3	.4	1.6	.8
Other	.3	.5	.3	.5	.5
Total interest	8.6	9.3	9.5	9.2	7.2
Depreciation and amortization	5.7	6.5	6.1	4.9	4.5
Development expense	1.5	1.9	2 0	1.4	2.2
Gain from property sales	(5.0)	(3 3)	(.9)	(2.3)	(3.6)
Other, net	.8	.7	2 2	1.4	1.6
Equity in loss of joint ventures	1.0	2.9	2.4	1.1	—
Interest income from advances to joint ventures	(.3)	(.5)	(.9)	(.4)	—
Earnings (Loss) Before Income Taxes	12.4	4.6	(.2)	(1.0)	3.1
Income Taxes	6.2	2.1	(.1)	(.6)	1.0
Net Earnings (Loss)	$ 6.2	$ 2.5	$ (.1)	$ (.4)	$ 2.1
Operating Profit (a)	$ 22.2	$ 16.8	$ 11.2	$ 9.3	$ 10.8
Corporate Expense (included above)	$ .5	$ .5	$ .4	$ .4	$ .5
Assets at Year End					
Identifiable assets	$165 8	$145.7	$162.8	$154 1	$141.0
Investments in/advances to joint ventures	(.3)	1.1	.5	3 0	1.2
Total	$165.5	$146.8	$163.3	$157.1	$142.2
Capital Expenditures	$ 27.0	$ 16.8	$ 9 6	$ 22.9	$ 22.5
OTHER INFORMATION					
Funds Provided By Operations	$ 12.0	$ 10.8	$ 8.7	$ 5 2	$ 8.2
Tenant Leasable Square Feet	3.7	3.7	4.2	4 1	3.6
Undeveloped Land at Year End (Thousands of Acres)	2.3	2.6	2.5	2.7	3.0

(a) Operating profit includes all revenue and expense items other than corporate expense, interest expense, equity in losses and interest income from joint ventures, and income taxes.

Dayton Hudson Corporation operates in two distinct lines of business — Retail and Real Estate Retail is further divided into three segments — department stores, low-margin stores and specialty stores See Pages 6-10 for discussion

Retail revenues are principally from unaffiliated customers Intersegment revenues are immaterial.

Real Estate revenues included both rental income from unaffiliated tenants, as reported in the Real Estate and Consolidated Results of Operations, and intersegment revenues with the department stores and specialty stores Intersegment revenues are at similar rates and are accounted for on the same basis as revenues from unaffiliated tenants

Identifiable assets by industry segment are those assets that are used in the Corporation's operations in each segment The Summary of Accounting Policies on Page 22 contains a more specific description of the methods used to allocate assets between the Retail and Real Estate lines of business Corporate assets consist primarily of cash and short-term investments

At the close of 1977, Dayton Hudson Corporation was operating 474 stores nationally and nine wholly owned regional shopping centers in Michigan and Minnesota.

Department Stores

■ Hudson's ■ Dayton's ■ Diamond's
■ Lipmans ■ John A. Brown

The department store group consists of five operating companies, each emphasizing fashion leadership, quality merchandise, broad selections and customer service. They are *Hudson's* in Michigan and Ohio; *Dayton's* in Minnesota and North Dakota; *Diamond's* in Arizona and Nevada; *Lipmans* in Oregon, and *John A. Brown* in Oklahoma.

Low-Margin Stores

■ Target ■ Lechmere

The low-margin group consists of *Target*, a low-margin department store chain operating in nine mid-western and southwestern states, and *Lechmere*, a New England hardlines retailer with particular strength in major appliances. Both operate high-volume, low-expense stores featuring dominant selections of national-brand merchandise.

Specialty Stores

■ B. Dalton, Bookseller
■ Dayton Hudson Jewelers
■ Team Electronics

The specialty store group consists of three multi-store companies: *B. Dalton, Bookseller*, a national bookstore chain; *Dayton Hudson Jewelers*, a group of six regional fine-jewelry retailers, and *Team Electronics*, a chain of owned and franchised consumer-electronics stores operating in 14 states.

Real Estate

■ Dayton Hudson Properties

The real estate group — *Dayton Hudson Properties* — develops and operates regional shopping centers and other commercial properties, and also provides real estate expertise to the Corporation's Retail operating companies.

Dayton Hudson Corporation

Department Stores

Low-Margin Stores

Specialty Stores

Real Estate

DEPARTMENT STORES	No. of Stores	Retail Sq. Ft.* (000)
Hudson's		
Joseph L. Hudson, Jr., Chairman		
Edwin G. Roberts, President		
Detroit, Mich.	8	4,102
Pontiac, Mich.	1	289
Flint, Mich.	1	268
Toledo, Ohio	1	187
Ann Arbor, Mich.	1	187
Grand Rapids, Mich.	1	122
Saginaw, Mich.	1	122
	14	5,277
Dayton's		
Kenneth Lever, Executive Vice President		
Minneapolis-St. Paul, Minn.		
Department Stores	7	2,307
Home Stores	3	146
Rochester, Minn.	1	155
Fargo, N.D.	1	115
St. Cloud, Minn.	1	102
	13	2,825

*Retail square feet is total square feet less office, warehouse and vacant space.

Diamond's		
Glenn E. Johnson, Chairman		
Harvey L. Lowenthal, President		
Phoenix, Ariz.	5	723
Tucson, Ariz.	1	98
Las Vegas, Nev.	1	41
	7	862
Lipmans		
Robert W. Chizum, President		
Portland, Ore.	4	502
Salem, Ore.	1	75
Corvallis, Ore.	1	47
Eugene, Ore	1	50
	7	674
John A. Brown		
James W. Sherburne, Jr., President		
Oklahoma City, Okla.	3	287
Tulsa, Okla.	2	201
	5	488
Total Department Stores	46	10,126

LOW-MARGIN STORES	No. of Stores	Retail Sq. Ft.* (000)
Target		
Kenneth A. Macke, Chairman		
Bruce G. Allbright, President		
Minneapolis-St. Paul, Minn.	11	1,198
Duluth, Minn.	1	96
Dallas-Fort Worth, Tex.	5	604
Houston, Tex.	6	685
St. Louis, Mo.	7	790
Denver, Colo.	6	614
Colorado Springs, Colo.	1	130
Oklahoma City, Okla	4	391
Tulsa, Okla.	1	126
Milwaukee, Wis.	4	452
Omaha, Neb.	3	310
Des Moines, Iowa	2	215
Ames, Iowa	1	45
Bettendorf, Iowa	1	80
Cedar Rapids, Iowa	1	80
Clinton, Iowa	1	60
Fort Dodge, Iowa	1	61
Mason City, Iowa	1	50
Ottumwa, Iowa	1	50
Moline, Ill.	1	80
	59	6,117
Lechmere		
David Banker, President		
Boston, Mass.	3	641
Springfield, Mass.	1	159
Manchester, N.H.	1	82
	5	882
Total Low-Margin Stores	64	6,999

SPECIALTY STORES	No. of Stores	Retail Sq. Ft.* (000)
Dayton Hudson Jewelers		
Sherman A. Swenson, President		
J. E. Caldwell		
Philadelphia, Pa.	3	21
Harrisburg, Pa.	1	5
Moorestown, N.J.	1	4
Wilmington, Del.	1	2
	6	32
J. B. Hudson		
Minneapolis-St. Paul, Minn.	7	27
Rochester, Minn.	1	2
Omaha, Neb.	1	5
	9	34
J. Jessop & Sons		
San Diego, Calif.	7	27
C. D. Peacock		
Chicago, Ill.	7	37
Shreve's		
San Francisco, Calif.	6	25
C. W. Warren		
Detroit, Mich.	8	21
Total Jewelry Stores	43	176

B. Dalton, Bookseller		
Floyd Hall, President		
Northeast	32	131
Southeast	49	166
Midwest	80	275
South Central	44	163
Northwest	15	50
Southwest	78	327
Total Bookstores	298	1,112
Team Electronics		
Paul D. Hagstrum, President		
Colorado	1	2
Illinois	2	6
Kansas	5	15
Michigan	1	3
Minnesota	3	6
Nebraska	2	6
Oklahoma	6	13
Wisconsin	3	7
Total Company-Owned (Franchised Stores: 88)	23	58
Total Specialty Stores	364	1,346
Total Retail	474	18,471

*Retail square feet is total square feet less office, warehouse and vacant space.

REAL ESTATE	No. of Units	Leasable Square Feet**
Dayton Hudson Properties		
Michael Kelly, President		
Shopping Centers		
Detroit, Mich.	4	4,473
Minneapolis-St. Paul, Minn.	4	3,780
Flint, Mich.	1	817
	9	9,070
Commercial, Office, Other		
Detroit, Mich.	2	269
Total Developed Real Estate	11	9,339
	Acres	
Undeveloped Land	2,280	

**Gross leasable area including department store space owned by Dayton Hudson and other retailers. (Excludes joint ventures.)

1977 Changes in Retail Space

	New Stores Opened	Stores Closed	Remodelings	Total Net Change
	Square Feet in Thousands			
DEPARTMENT STORES				
Hudson's				
Twelve Oaks Center Novi (Detroit), Mich.	240			
Dayton's				
Burnsville Center Burnsville (Minneapolis-St. Paul), Minn.	173			
Southdale Center Edina (Minneapolis-St. Paul), Minn.			22	
Rosedale Center Roseville (Minneapolis-St. Paul), Minn.			1	
	413	-0-	23	436
LOW-MARGIN STORES				
Target				
Northpark (Dallas), Tex.	108			
Burnsville (Minneapolis-St. Paul), Minn.	100			
Aurora (Denver), Colo.	100			
Northridge (Milwaukee), Wis.	100			
Kirkwood (St. Louis), Mo.	100			
Southwest Omaha, Neb.	100			
Humble (Houston), Tex.	100			
Knollwood (Minneapolis-St. Paul), Minn.			24	
Lechmere				
Mall of New Hampshire Manchester, N.H.	82			
	790	-0-	24	814
SPECIALTY STORES				
Dayton Hudson Jewelers				
J. B. Hudson Burnsville (Minneapolis-St. Paul), Minn.	2			
C. W. Warren Novi (Detroit), Mich.	2			
B. Dalton, Bookseller				
50 Stores	149			
2 Stores		5		
3 Stores			12	
Team Electronics				
3 Stores	9			
2 Stores		5		
	162	10	12	164
Total Retail Space	1,365	10	59	1,414

Dayton Hudson Corporation

DIRECTORS

William A. Andres, Chairman of the Board[b]

Bruce B. Dayton, Chairman, Finance Committee[b]

K. N. Dayton, Chairman, Executive Committee[b]

Joseph L. Hudson, Jr., Chairman of Hudson's

Stephen F. Keating, Chairman of the Board, Honeywell Inc. (automation equipment manufacturer)[a,b]

Howard H. Kehrl, Executive Vice President, General Motors Corporation (manufacturer of transportation equipment)[a][b]

***Bruce K. MacLaury**, President, The Brookings Institution (research and planning organization)

David T. McLaughlin, President, The Toro Company (yard care equipment manufacturer)[a][b]

Stephen L. Pistner, President

Richard L. Schall, Vice Chairman of the Board

William H. Spoor, Chairman of the Board, The Pillsbury Company (diversified food producer)[b]

Paul N. Ylvisaker, Dean of the Graduate School of Education, Harvard University[b]

Shirley Young, Executive Vice President, Grey Advertising, Inc. (advertising agency)[a][b]

(a) Audit Committee
(b) Executive Committee
*Elected December 1977

OFFICERS

William A. Andres, Chairman and Chief Executive Officer

Stephen L. Pistner, President and Chief Operating Officer

Richard L. Schall, Vice Chairman and Chief Administrative Officer

K. N. Dayton, Chairman, Executive Committee

Robert J. Crabb, Senior Vice President

Joseph L. Hudson, Jr., Senior Vice President

Kenneth A. Macke, Senior Vice President

Wayne E. Thompson, Senior Vice President

Gerald R. Dirks, Vice President

Gerald R. Gallagher, Vice President

David W. Haskin, Vice President

Allan L. Pennington, Vice President

Albert B. Perlin, Vice President and Secretary

Willard C. Shull III, Vice President and Treasurer

Peter Corcoran, Assistant Treasurer

Karol D. Emmerich, Assistant Treasurer

William E. Harder, Assistant Secretary

William P. Hise, Assistant Secretary

David McCaffrey, Assistant Treasurer

TRANSFER AGENTS AND REGISTRARS

Northwestern National Bank of Minneapolis

The Northwestern Trust Company, New York City

10-K REPORT

A copy of the Form 10-K annual report filed with the Securities and Exchange Commission for Dayton Hudson's fiscal year ended January 28, 1978, is available at no charge to shareholders on request. Write to: Director, Financial Relations.

Dayton Hudson Corporation
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Minneapolis, Minnesota
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